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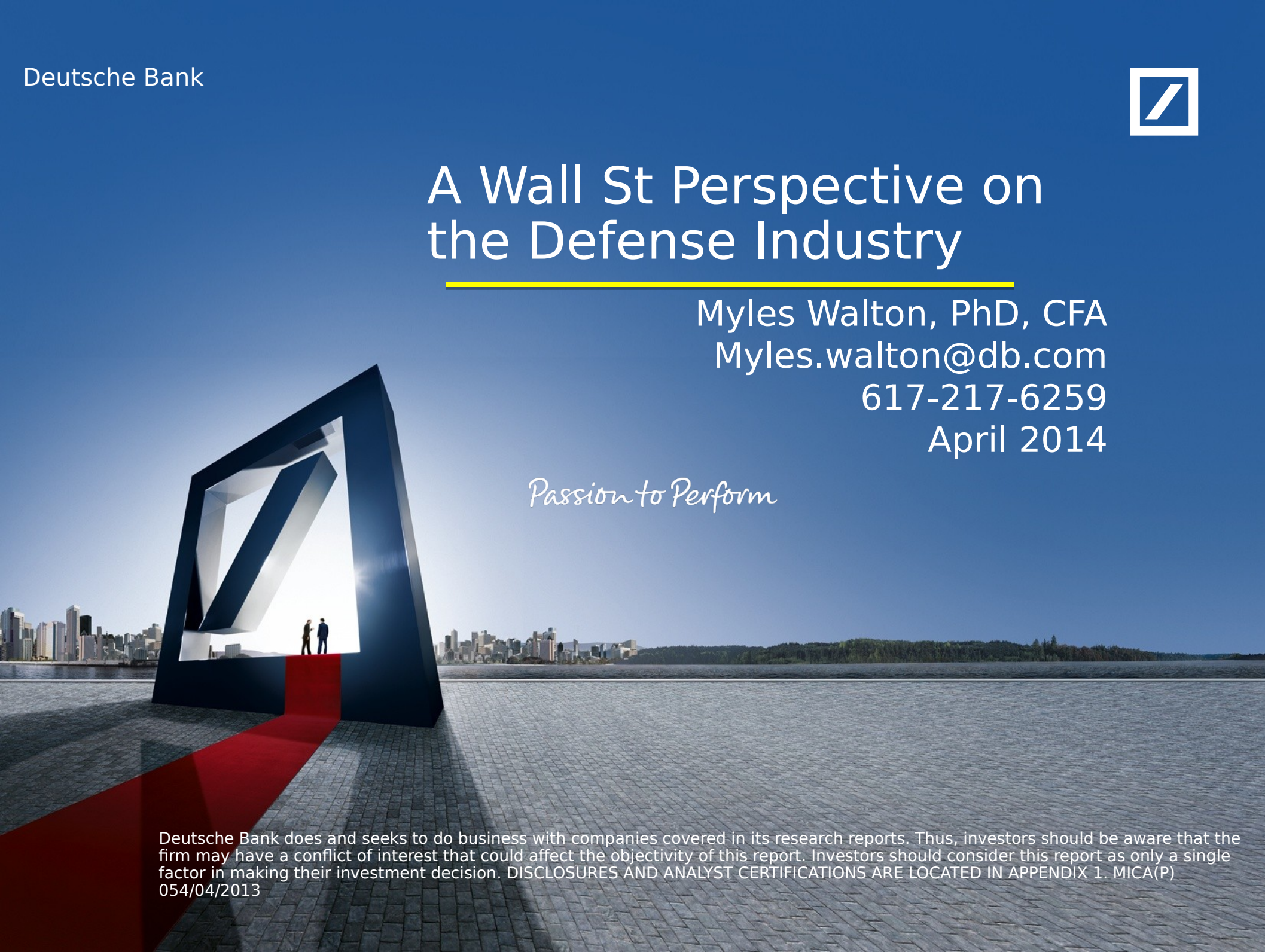

A Wall St Perspective on the Defense Industry

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April 2014

Passion to Perform

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Defense Industry Investment Summary

2014 Defense Investing Themes

On the Wrong-Side of Cycle

"Defensive" Qualities

Deficit, Deficit, Deficit

Sequestration

No-Growth World

Cash-rich

Pension EPS growth

Valuation/Expectations in Defense Stocks Reflects:

- Declining top-line environment
- Earnings holding up from capital deployment, pension recovery; solid dividend yields (2-4%)
- Still good backlogs of business
- Free cash flow after dividends of ~$12B over 2014/15 leaves plenty to deploy in acquisitions, dividend increases and share repurchase
- Fear on sales declines evolves to fear on margins/cash
- Incremental risk on Sequestration

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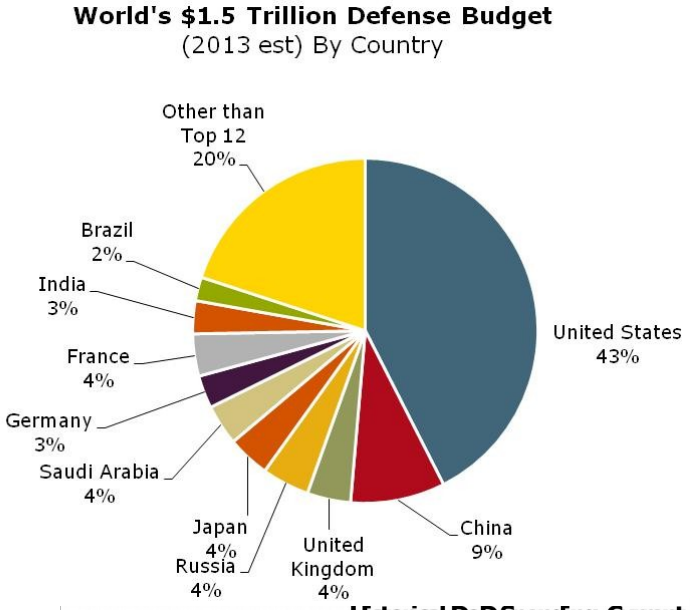
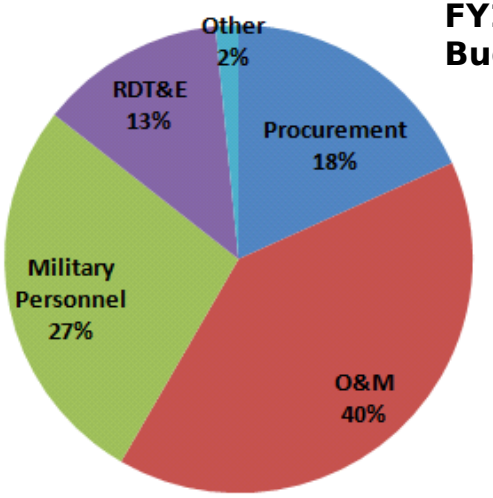
U.S. Defense Budget Drives The Group

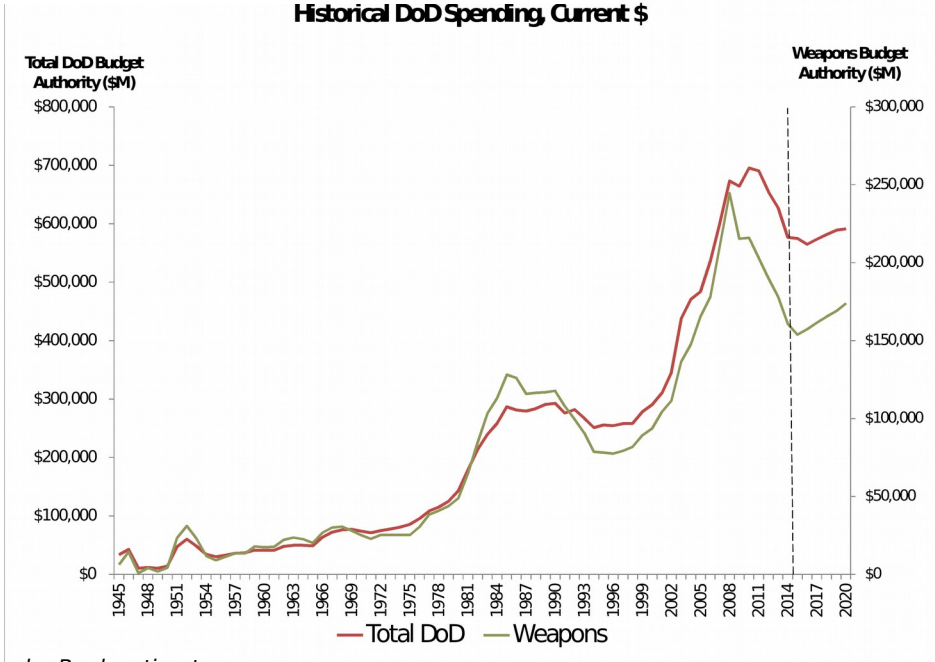
Weapons spending authority, Procurement, and RDT&E, are more important to defense contractors than the overall defense budget





FY15 DoD Budget: $496B

Defense budgets have historically been cyclical, and will likely continue to be



Source: Department of Defense, CIA Factbook, Deutsche Bank estimates.

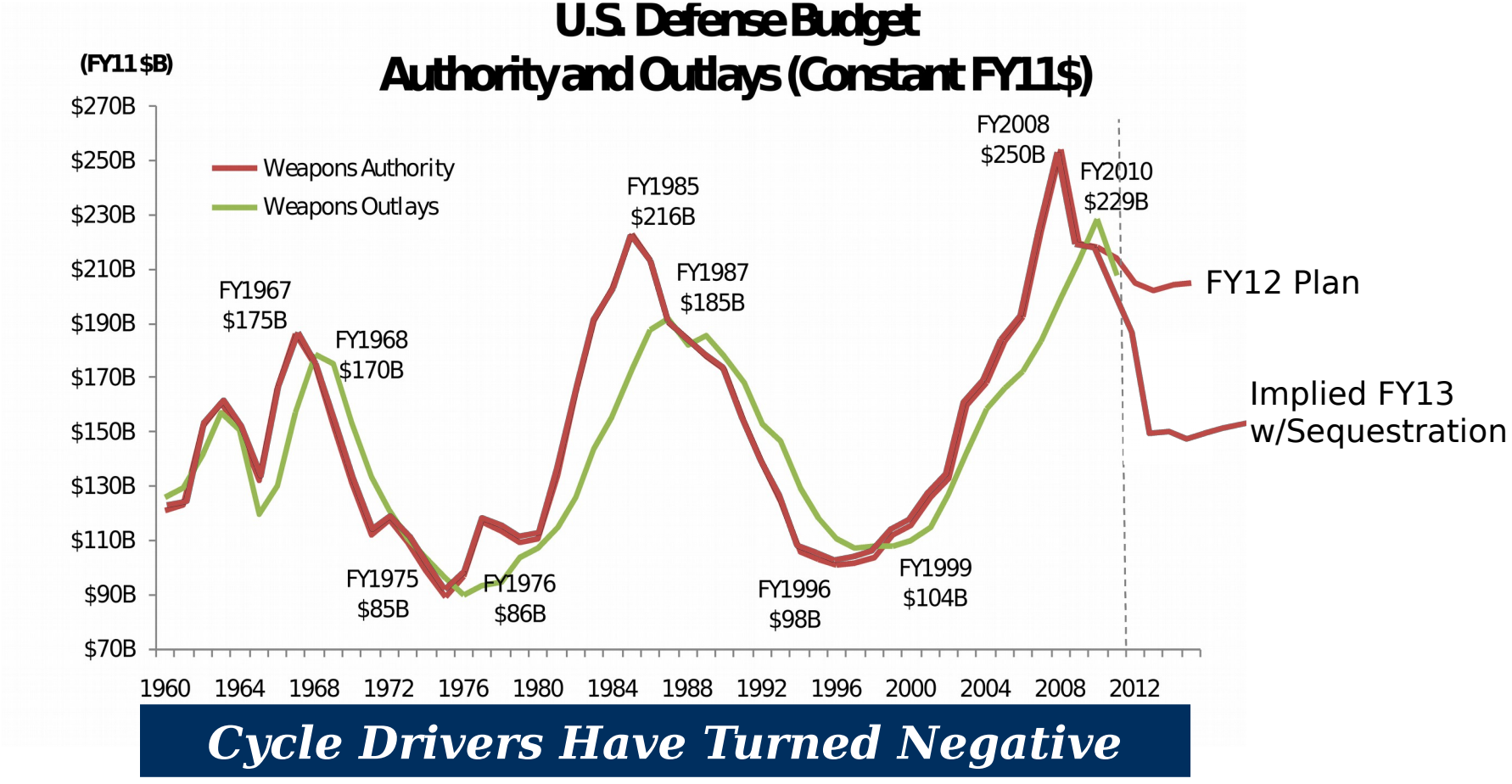
Our Thinking on Defense Spending Cycles

vers to Defense Spending

Threat: Domestic Fears Take Center Stage

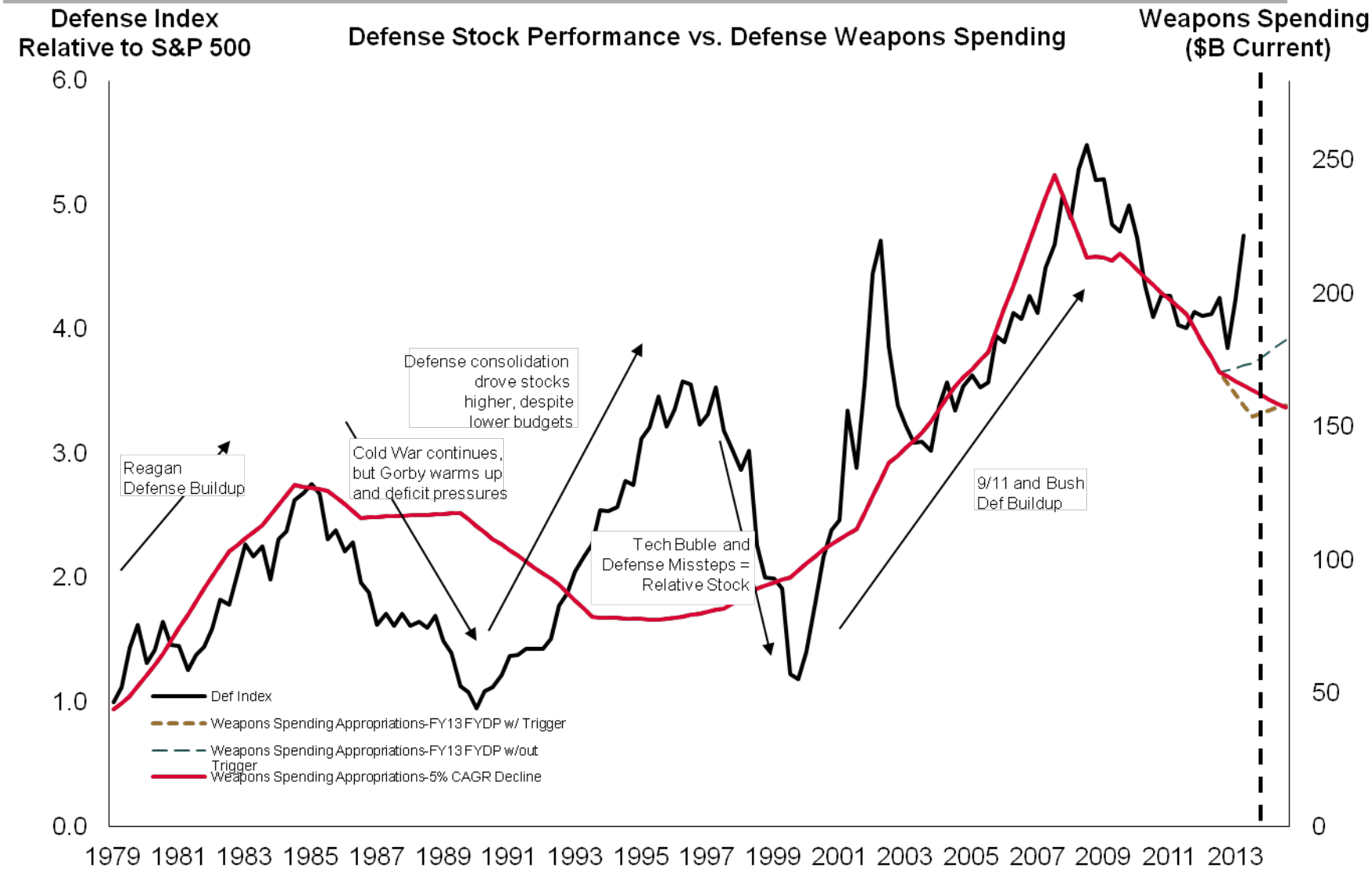
Available Funds: Scarcity Builds and Deficit is Driving the Cycle

Washington World View: Evolving, But Not Leading



Source: Department of Defense, Deutsche Bank estimates.

Budgets and Stocks

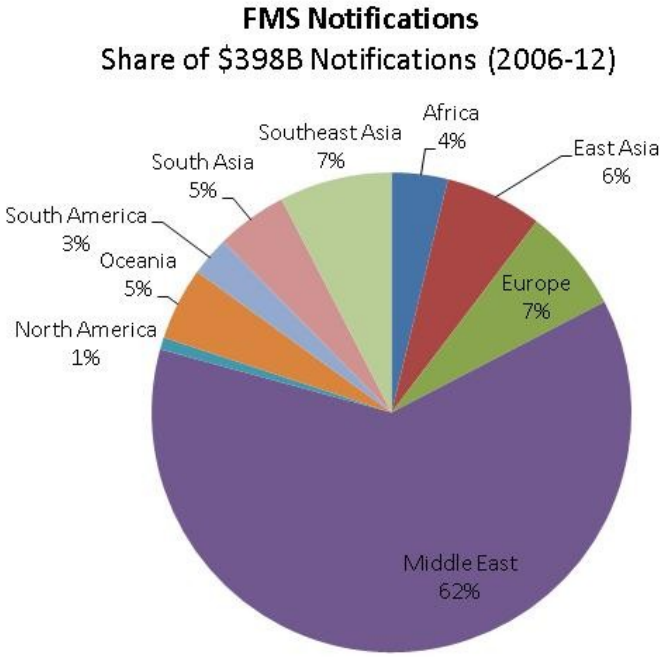


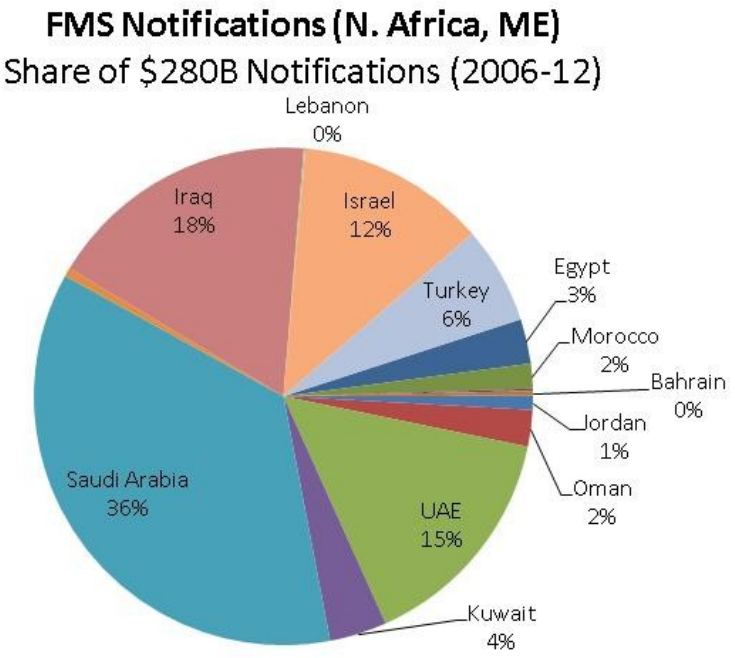
Stocks include: NOC, GD, LMT, RTN, LLL, ATK, McDonnel Douglas, E-Systems, Martin Marietta, Grumman

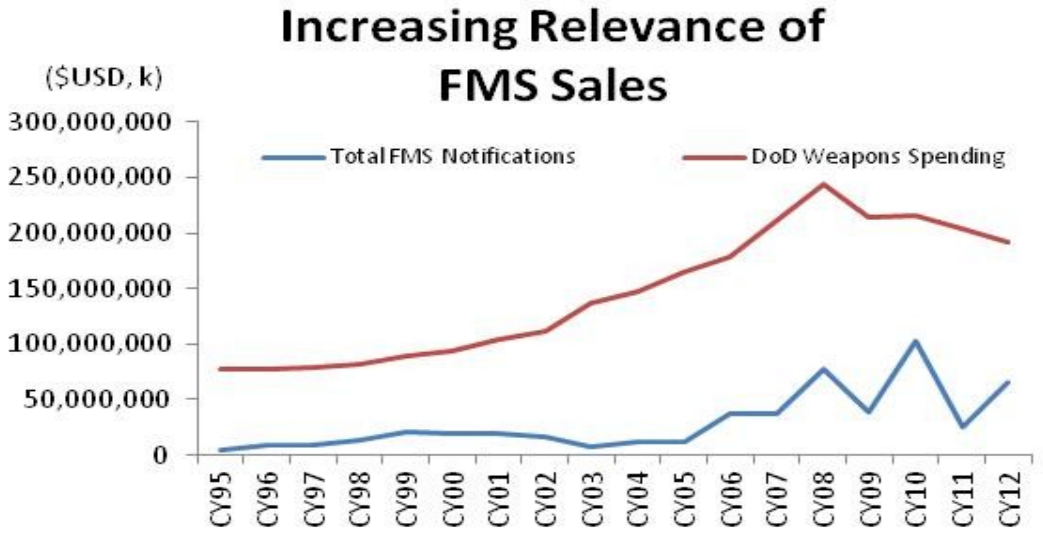
Source: Thompson Reuters, Department of Defense, Deutsche Bank estimates.

Correlation has recently broken

Increasing Relevance of International Sales







Source: Department of Defense, Deutsche Bank estimates.

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Cycles vs. Sequestration: It's About the Journey & the Destination

- The US defense spending downcycle continued in 2012 with FY12 Weapons appropriations down 5% and outlays down 4%. Expect similar trends into FY13-15 with or without sequestration.

Weapons Spending Budget Authority (Current $)

	Trough-to-Trough			Rise to Peak			Fall to Trough		
Spending cycle	% total	% CAGR		Yrs Up	% total	% CAGR		Yrs Down	
'65-'71	51%	15%		4	-26%	-9%		4	
'71-'96	463%	13%		14	-39%	-4%		11	
'96-'13*^	215%	10%		12	-37%	-9%		5*	

*FY13 is the implied trough for weapons spending in the current budget plan given the run-off of wartime spending
^Assumes trigger or similar cuts take place

- Sequestration carries with it unique risk. Strategic decisions are being put on the back-burner; likely to see larger muscle movements in late '13. (portfolio shaping, consolidation, identification of beneficiaries/losers)

Implications of Sequestration Transparancy Act of 2012

($B current, USD)	FY13^			Sequesterable	Implied	Seq amount	% of
	base budget	OCO	base+OCO	Base*	Unobligated Funds		FY13 base
RDT&E	69	0	70	79.5	10	7.5	11%
Procurement	99	10	109	163.0	54	15.3	16%
Total Weapons	**$168**		**$178**	**$242**	**$64**	**$23**	**13.5%**
% of Total DoD	*32%*		*29%*	*42%*	*53%*	*42%*	
Total DoD, less MilPer	**$383**	**$74**	**$458**	**$580**	**$122**	**$54.7**	**9.4%**
Total DoD	*$525*	*$88*	*$614*				

** from Sequestration Transparency Act of 2012 = $580.073 (FY13 base + OCO + unobligated balances - mil per)*
^from President's Budget Request

Source: Department of Defense, Deutsche Bank estimates.

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Four things to watch in 2014 and beyond

1. Capital deployment shifts

- Strong cash flow and an eye on delivering more back to the shareholder has been a key theme. Will strategies mean-revert?

	Div P.out Ratio			Div % of fcf			Div yield			Div/share Δ			Repo % FCF			Repo+Div/FCF		
	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e	2013e	2014e	2015e
LMT	48%	52%	51%	38%	41%	40%	3.6%	4.1%	4.4%	15%	16%	10%	52%	56%	51%	90%	98%	91%
RTN	39%	43%	40%	39%	43%	44%	2.8%	3.1%	3.5%	10%	15%	15%	54%	55%	49%	93%	98%	92%
NOC	30%	33%	32%	26%	31%	29%	2.5%	2.5%	2.6%	11%	12%	12%	100%	121%	80%	126%	152%	109%
GD	25%	33%	33%	26%	35%	34%	2.0%	2.7%	2.9%	10%	10%	10%	61%	59%	53%	88%	94%	86%
LLL	27%	30%	32%	20%	21%	23%	2.3%	2.5%	2.6%	11%	11%	11%	65%	74%	80%	85%	94%	102%
Ave.	**34%**	**38%**	**37%**	**30%**	**34%**	**34%**	**2.6%**	**3.0%**	**3.2%**	**11%**	**13%**	**12%**	**67%**	**73%**	**62%**	**96%**	**107%**	**96%**

2. International sales acceleration

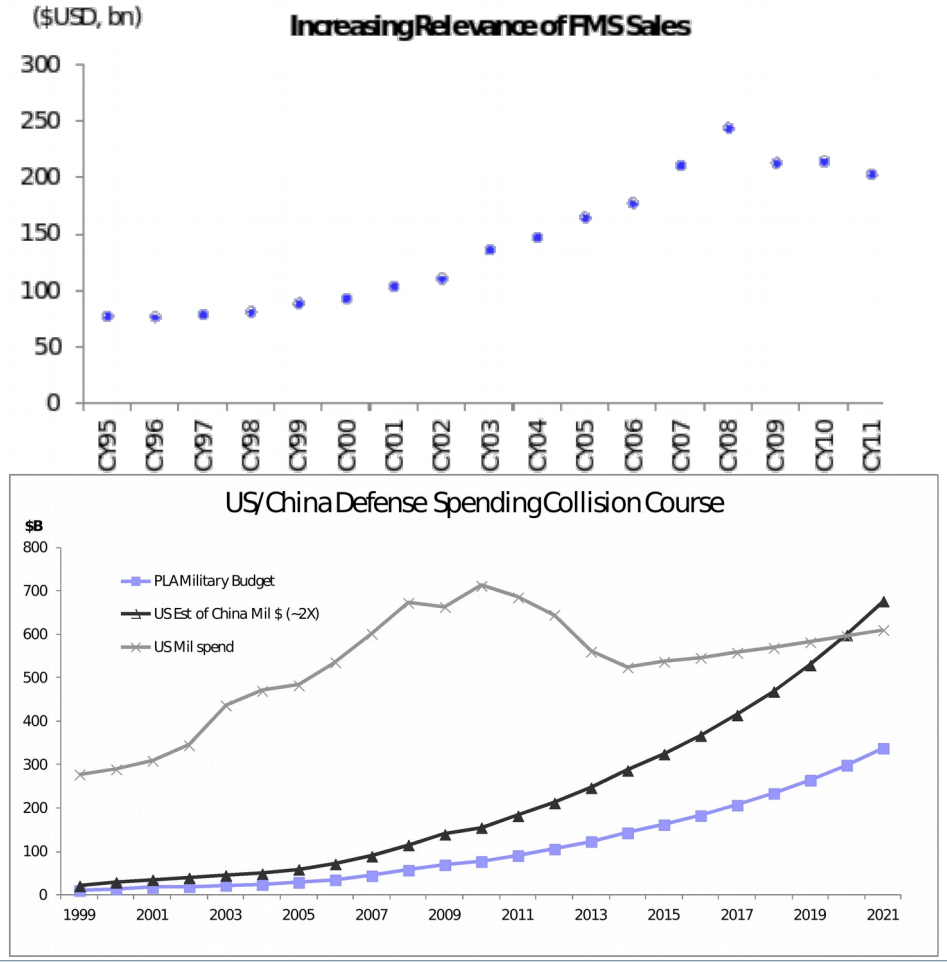
- International sales notifications remain robust and signed agreements are likely to pick-up momentum

3. China/Russia rise as a spending crutch

- In contrast to the last DoD spending down-cycle, a strategic spending peer in China continues an expansion… Russia projected 40% rise 2013-15

4. Consolidation pick-up post-Seq

- We'd expect to see a pick-up in mezzanine consolidation, particularly in the gov't services arena, in 2013 as specific sequestration risk abates



Source: Department of Defense, Deutsche Bank estimates.

Signs of things to come…

GAO report on government pension accounting (Jan '13)

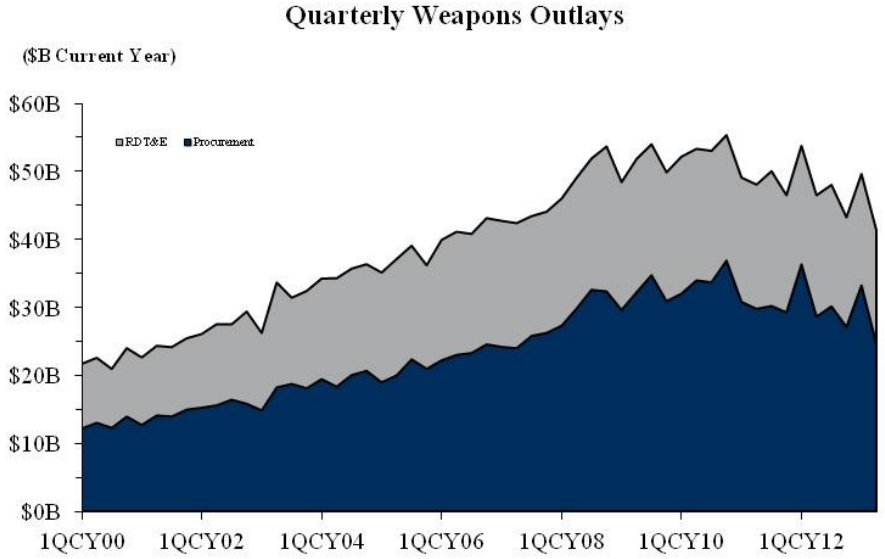
- Will contractor allowable costs remain allowable (5% add to cost structure in last decade)

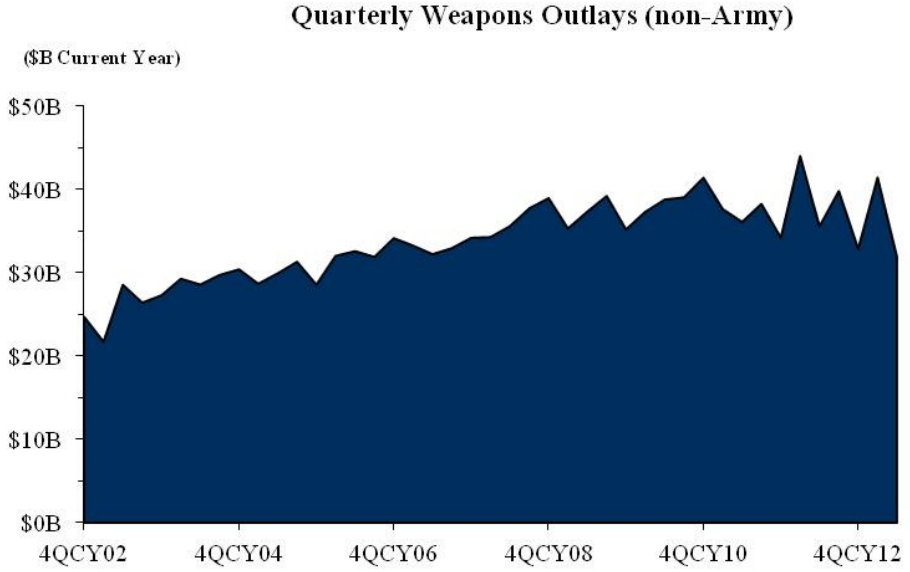
GAO holding hearing on contractor profit levels (Feb '13)

- Will customer buying power continue to grow

Workforce Cuts ~25% since 2009…DoD outlays down ~10% (weapons down 15%) from peak…~20% further to go

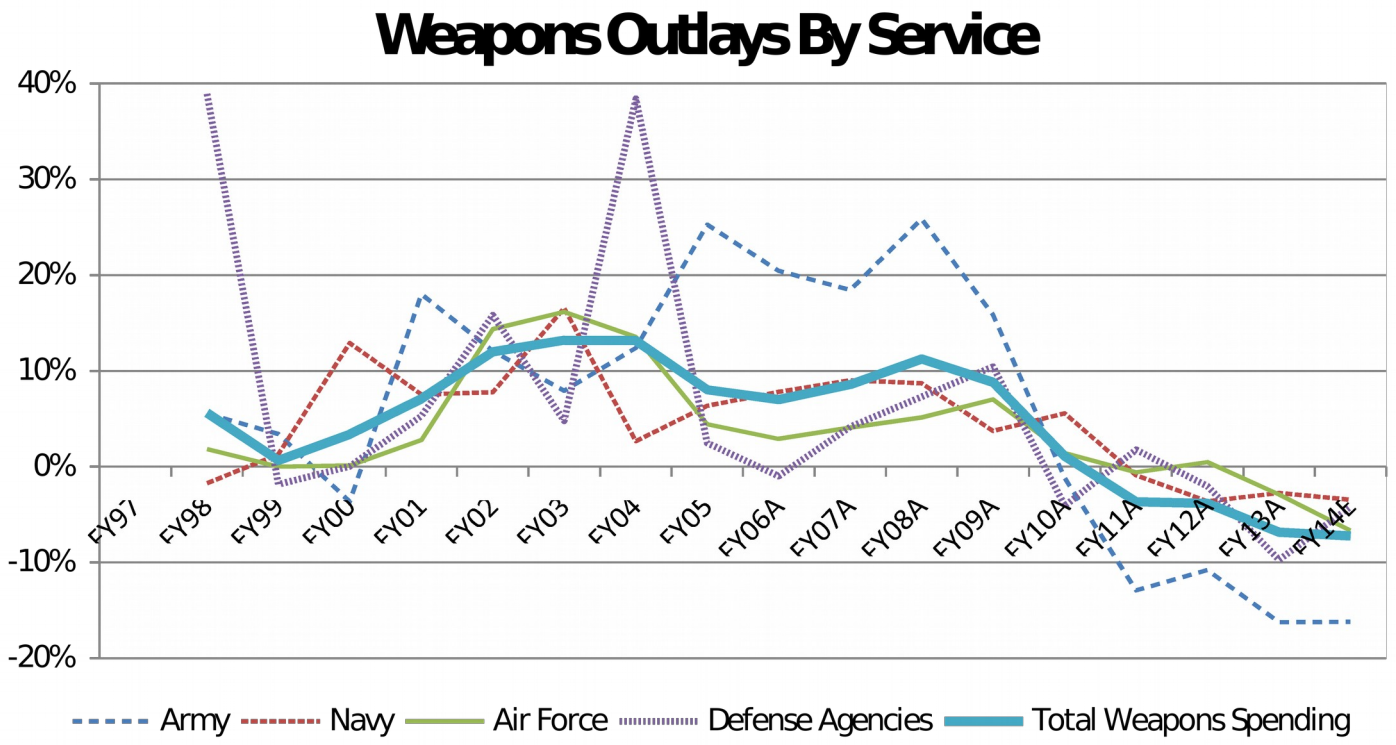
- Expect defense contractor workforce contraction to continue to track ahead of defense spending profiles





Source: Department of Defense, Deutsche Bank estimates.

Big Declines In Spending Yet to Arrive (for non-Army)



	FY04	FY05	FY06A	FY07A	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E
Army	12.4%	25.3%	20.5%	18.5%	25.9%	15.9%	(1.2%)	(12.9%)	(10.8%)	(16.2%)	(16.2%)
Navy	2.7%	6.4%	7.8%	9.0%	8.7%	3.8%	5.6%	(0.9%)	(3.6%)	(2.7%)	(3.4%)
Air Force	13.5%	4.4%	2.9%	4.1%	5.1%	7.0%	1.4%	(0.6%)	0.5%	(2.9%)	(6.7%)
Defense Agencies	38.5%	2.5%	(1.0%)	4.2%	7.3%	10.5%	(4.1%)	1.8%	(2.0%)	(9.7%)	(4.1%)
Total Weapons Spending	**13.2%**	**8.0%**	**7.0%**	**8.6%**	**11.3%**	**8.8%**	**1.1%**	**(3.7%)**	**(3.8%)**	**(6.8%)**	**(7.2%)**
Non-Army Weapons Spend	***13.3%***	***4.7%***	***4.0%***	***6.0%***	***6.9%***	***6.4%***	***2.0%***	***(0.3%)***	***(1.6%)***	***(4.1%)***	***(5.0%)***

Only the Army Has Seen the Declines to Date

Source: Department of Defense, Deutsche Bank estimates.

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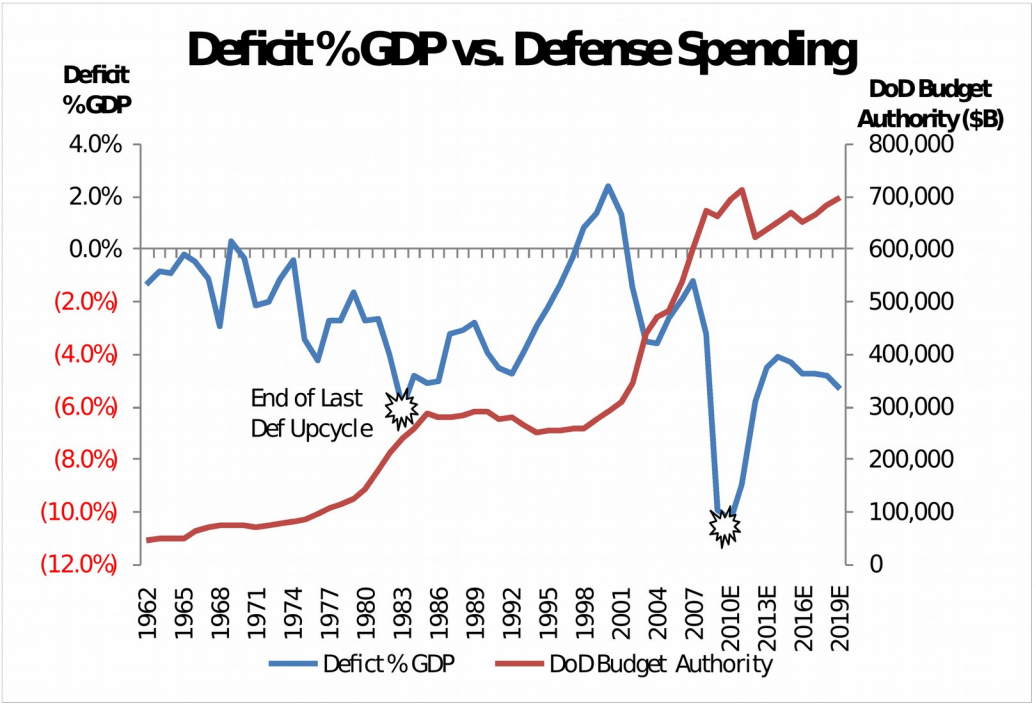
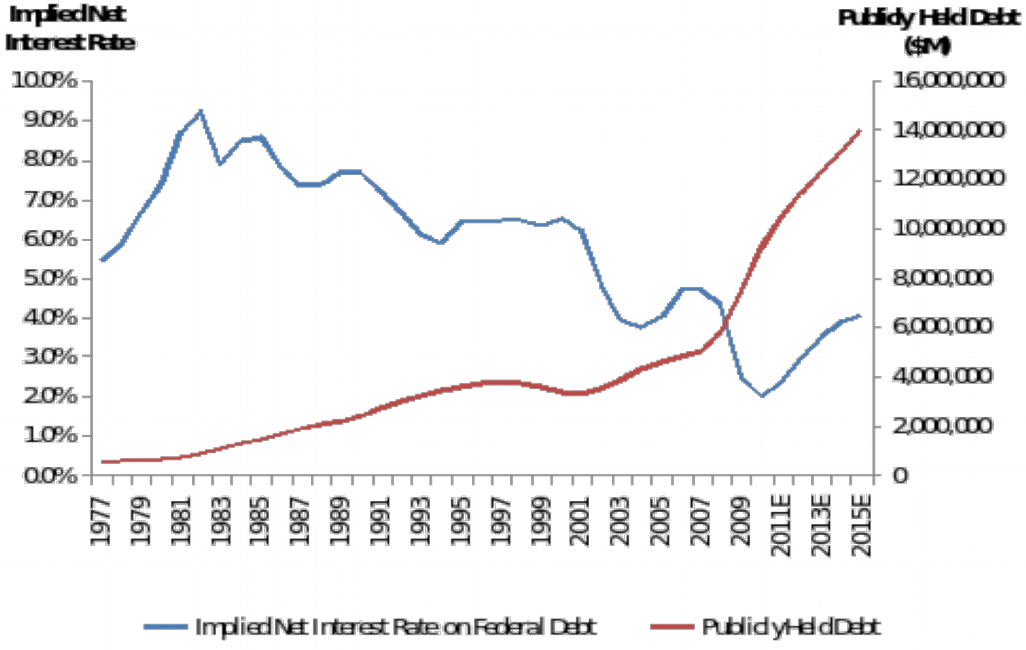
Deficits Aren't Going Away By Themselves…



Deficits were the catalyst to the last downcyle

- Gramm-Rudman-Hollings amendment/Pay-Go took spending control away from DoD
- "Cutting Defense in this Fiscal Climate is Like Following Off a Log"



Low Interest Rate Are Allowing Spending to Continue

- Historic low interest rates are allowing Fed to dig deeper deficit hole than ever before
- Even Without Rate Rise, Interest Burden ~ Defense Spending By 2015

Source: Department of Defense, Deutsche Bank estimates.

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Perspectives on Sequestration (FY13)

Implications of OMB report

($B current, USD)	FY13^ Base Budget	OCO	base+OCO	Sequesterable Base*	Implied Unobligated Funds	Seq amount	%of FY13 base
RDT&E	69	0	70	77.6	8	7.8	11%
Procurement	99	10	109	148.1	40	14.9	15%
Total Weapons	**$168**	**$0**	**$178**	**$226**	**$48**	**$23**	**13.5%**
% of Total DoD	*32%*		*29%*	*41%*	*55%*	*53%*	
Total DoD, less MilPer	**$383**	**$74**	**$458**	**$545**	**$87**	**$54.7**	**10.0%**
Total DoD	*$525*	*$88*	*$614*				

Implications of OMB report

($B current, USD)	FY13^ Base Budget	OCO	base+OCO	Sequesterable Base*	Implied Unobligated Funds	Seq amount	%of FY13 base
RDT&E	69	0	70	77.6	8	6.1	9%
Procurement	99	10	109	148.1	40	11.5	12%
Total Weapons	**$168**	**$0**	**$178**	**$226**	**$48**	**$18**	**10.5%**
% of Total DoD	*32%*		*29%*	*41%*	*55%*	*41%*	
Total DoD, less MilPer	**$383**	**$74**	**$458**	**$545**	**$87**	**$42.7**	**7.8%**
Total DoD	*$525*	*$88*	*$614*				

Implications of OMB report

($B current, USD)	FY13^ Base Budget	OCO	base+OCO	Sequesterable Base*	Implied Unobligated Funds	Seq amount	%of FY13 base
RDT&E	69	0	70	77.6	8	5.3	8%
Procurement	99	10	109	148.1	40	10.1	10%
Total Weapons	**$168**	**$0**	**$178**	**$226**	**$48**	**$15**	**9.1%**
% of Total DoD	*32%*		*29%*	*41%*	*55%*	*36%*	
Total DoD, less MilPer	**$383**	**$74**	**$458**	**$545**	**$87**	**$37.0**	**6.8%**
Total DoD	*$525*	*$88*	*$614*				

Making Sequestration Manageable

Source: Department of Defense, Deutsche Bank estimates.

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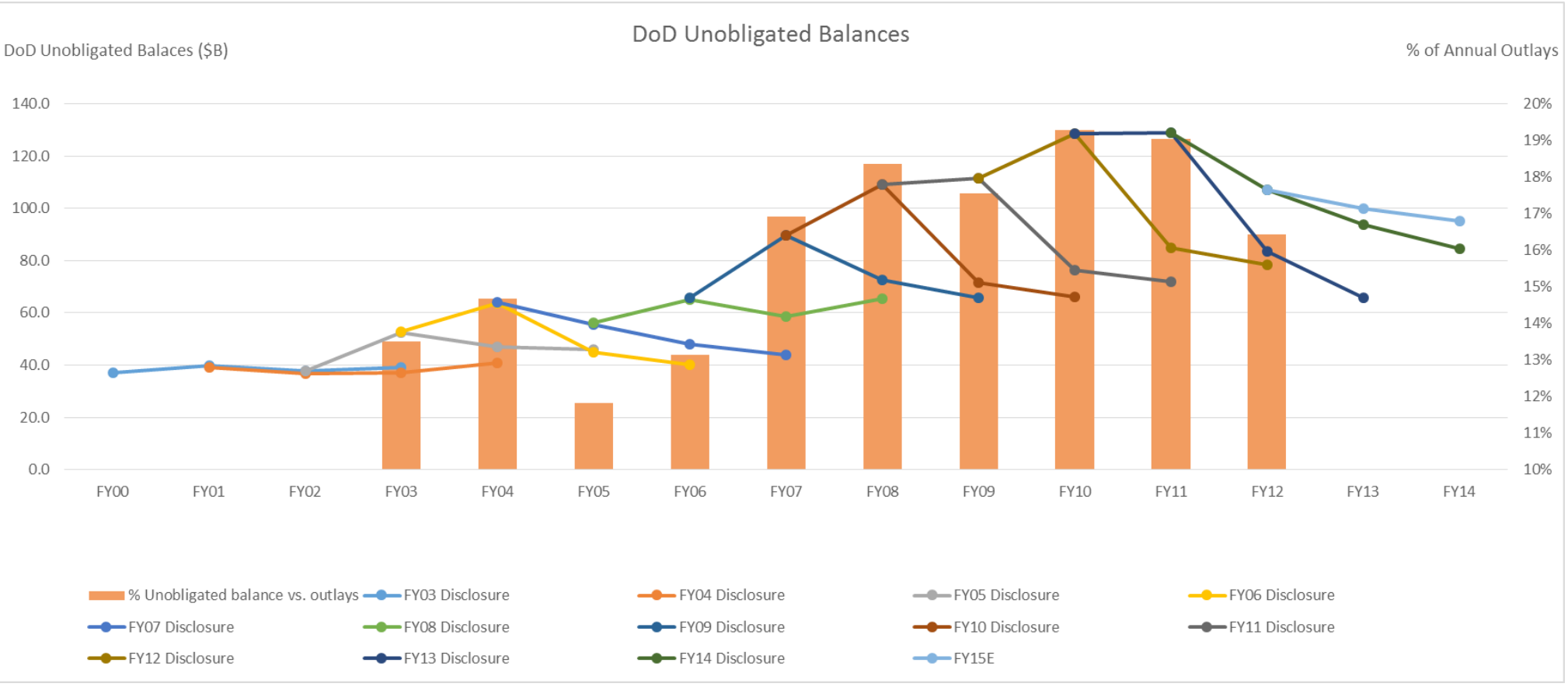
Unobligated Funds—A Bit of Buffer



Making Sequestration Manageable

Source: Department of Defense, Deutsche Bank estimates.

Offerings, Tough Choices, or Peanut Butter

- Offerings: Programs are killed as a means to protect higher valued projects, generally targets the weak, lighter backlash…Think Comanche, Crusader, VXX, EP-X, F-22, FCS, GCV

- Tough Choices: Strategic level reshuffling of priorities with resources available…Think DDG-1000 vs. DDG-51, TSAT vs. AEHF/WGS, Force Structure

- Peanut Butter: Inescapable mandatory cuts across the board; few, if any programs find sanctuary…Think Gramm-Rudman-Hollings/Pay-go or Sequestration

Investors on the watch fort the next round of "big" program decisions…last round was April 2009

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Are Elongated Cycle-times Endemic to Aero/Defense?

Extended Product Development Timelines Seem Here to Stay

		Launch	EIS	Total Time (months)	
Boeing	747-100	Apr-66	Jan-70	45	
	767	Jul-78	Sep-82	50	
	757	Apr-79	Jan-83	45	
	737-300(classic)	Mar-81	Dec-84	45	48Mo Average
	747-400	Dec-85	Dec-89	48	
	777-200	Oct-90	Jun-95	56	
	737-700 (NG)	Nov-93	Jan-98	50	
	747-8	Nov-05	Oct-11	71	
	787-800	Apr-04	Sep-11	89	76Mo Average
	737Max	Aug-11	Oct-17	74	
	777X	Dec-13	Dec-19	72	

		Launch	EIS	Total Time (months)	
Airbus	A300	Dec-70	May-74	41	
	A310	Jul-78	Apr-83	57	54Mo Average
	A320	Mar-84	Mar-88	48	
	A330/340*	Jun-87	Mar-93	69	
	A380	Dec-00	Oct-07	82	
	A350	Dec-06	Jun-14	90	81Mo Average
	A320Neo	Dec-10	Oct-16	70	

Source: Company reports, Deutsche Bank estimates.

$$\text{Dev Cost (\$M)} \sim (0.03 \times \text{Dev Time (months)} + 1.36)^4 \ ^*$$

**Source: McNutt, Reducing Product Development, PhD thesis, MIT, 1999*

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Consolidation hasn't gotten more intense since mid-2000s

Defense Revenues and Outlays

($USD MM)	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008A	2009A	2010A	2011A	2012A	2013E
Total Defense Sales													
Lockheed Martin	$23,990	$26,578	$31,824	$35,526	$37,213	$39,620	$41,862	$42,731	$45,189	$45,803	$46,499	$47,182	$44,998
Boeing*	22,815	24,957	27,361	30,465	31,106	32,439	32,080	32,047	33,661	31,943	31,976	32,607	32,019
Northrop Grumman	13,012	17,406	26,396	29,853	30,067	30,113	31,828	32,315	33,755	34,757	26,412	25,218	24,274
Raytheon*	13,339	14,510	15,448	17,150	18,257	19,707	21,301	23,174	24,881	25,183	24,857	24,414	23,725
General Dynamics*	8,513	10,254	13,167	15,914	17,542	19,947	22,412	23,788	26,810	27,167	26,679	24,770	22,994
L-3 Communications*	1,816	3,502	4,350	6,156	8,299	10,861	12,074	13,225	14,141	14,268	13,652	11,011	11,035
Total	**$83,485**	**$97,207**	**$118,545**	**$135,064**	**$142,484**	**$152,687**	**$161,557**	**$167,280**	**$178,437**	**$179,121**	**$170,075**	**$165,202**	**$159,044**
% Change		*16%*	*22%*	*14%*	*5%*	*7%*	*6%*	*4%*	*7%*	*0%*	*-5%*	*-3%*	*-4%*
Est US DoD Sales, ex FMS													
Lockheed Martin (E)	$14,193	$16,192	$19,028	$21,576	$22,326	$23,473	$24,752	$25,447	$27,116	$27,431	$26,824	$28,854	$27,449
Boeing* (E)	16,197	19,149	21,289	24,775	23,063	23,871	23,515	23,630	24,762	23,321	21,449	22,738	22,327
Northrop Grumman (E)	9,260	12,628	20,273	23,297	24,019	24,017	25,511	27,460	27,588	28,527	21,249	20,185	19,429
Raytheon*	9,512	10,406	11,766	13,616	14,272	15,610	15,705	17,431	18,158	18,033	17,309	16,818	16,343
General Dynamics* (E)	6,353	7,444	9,273	11,126	12,278	14,202	16,418	17,679	19,796	19,924	19,075	17,443	16,192
L-3 Communications	1,519	2,627	3,508	5,062	6,961	9,108	10,268	11,059	11,932	11,932	11,321	9,376	9,396
	$57,034	**$68,447**	**$85,137**	**$99,452**	**$102,918**	**$110,280**	**$116,169**	**$122,705**	**$129,353**	**$129,168**	**$117,227**	**$115,414**	**$111,137**
		20%	*24%*	*17%*	*3%*	*7%*	*5%*	*6%*	*5%*	*0%*	*-9%*	*-2%*	*-4%*
Total DoD Weapons Outla	**$96,903**	**$110,840**	**$124,057**	**$140,899**	**$147,836**	**$165,314**	**$172,939**	**$200,972**	**$204,440**	**$216,082**	**$194,023**	**$191,860**	**$178,165**
% Change		*14%*	*12%*	*14%*	*5%*	*12%*	*5%*	*16%*	*2%*	*6%*	*-10%*	*-1%*	*-7%*
Top 6 % of Total	**59%**	**62%**	**69%**	**71%**	**70%**	**67%**	**67%**	**61%**	**63%**	**60%**	**60%**	**60%**	**62%**

Industry in Deconsolidation

Source: Company reports, Department of Defense, Deutsche Bank estimates.

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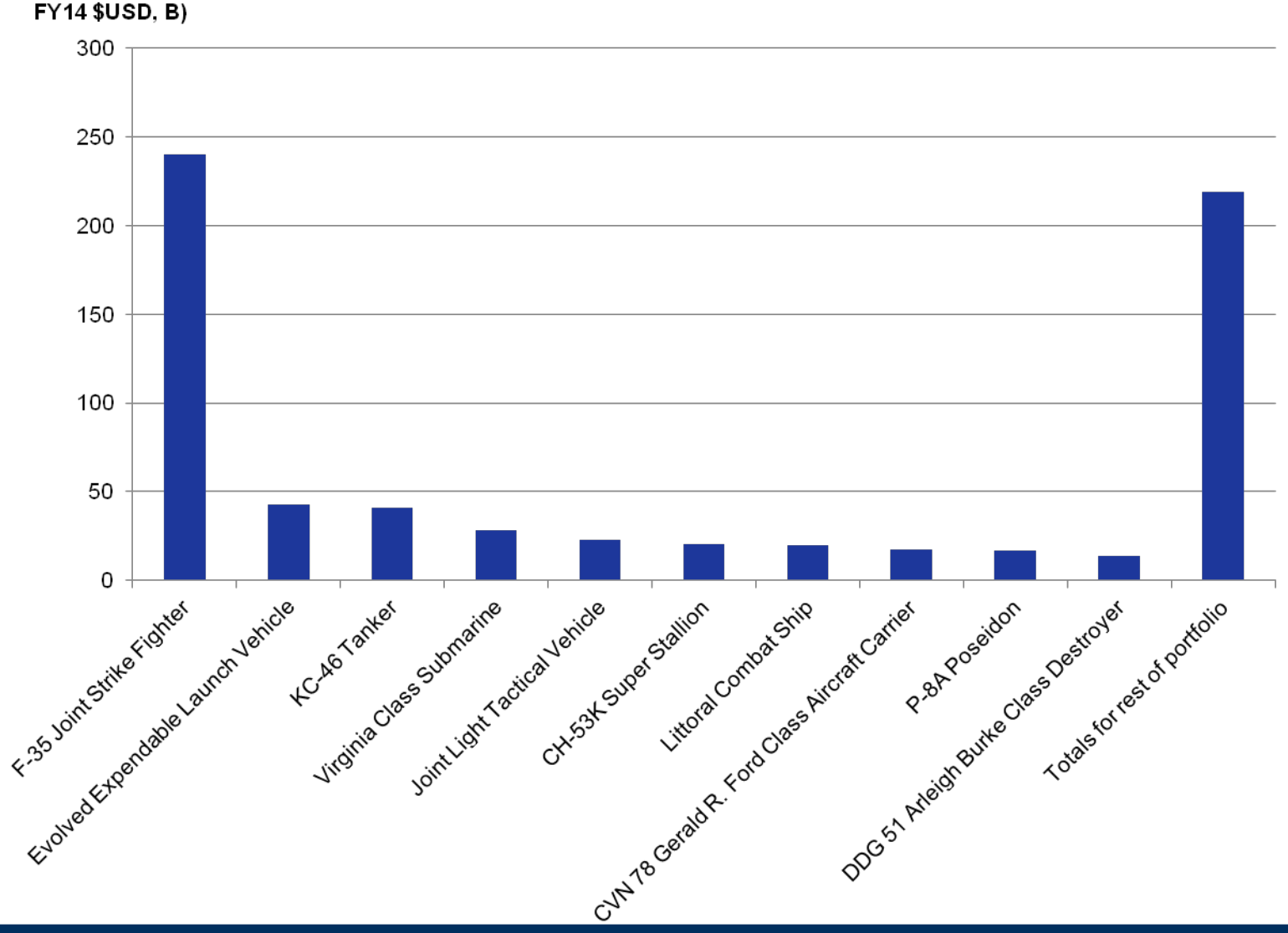
April 2014

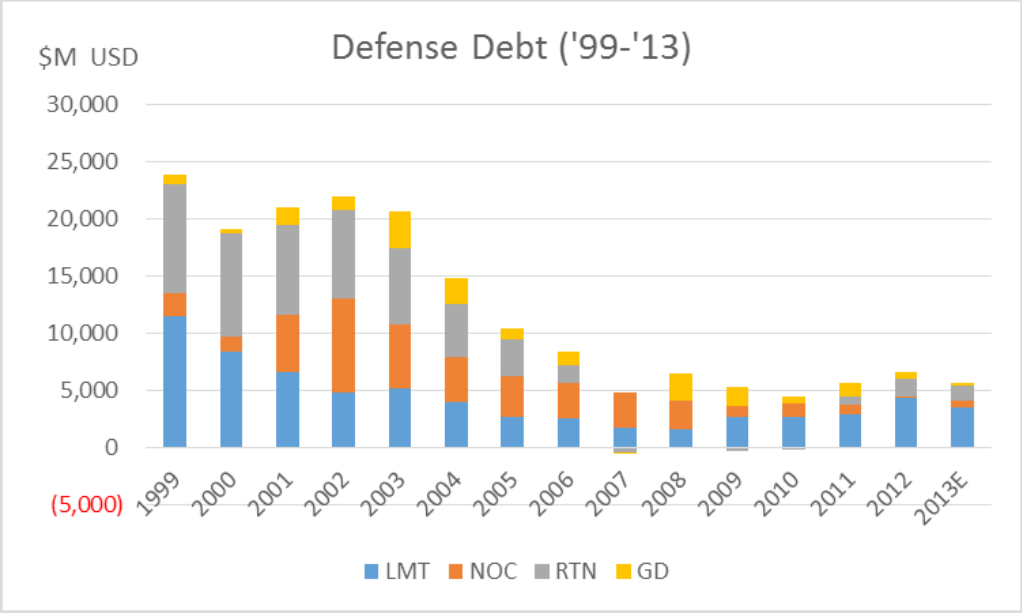
But Programs Matter…JSF Remains the 800lb Gorilla

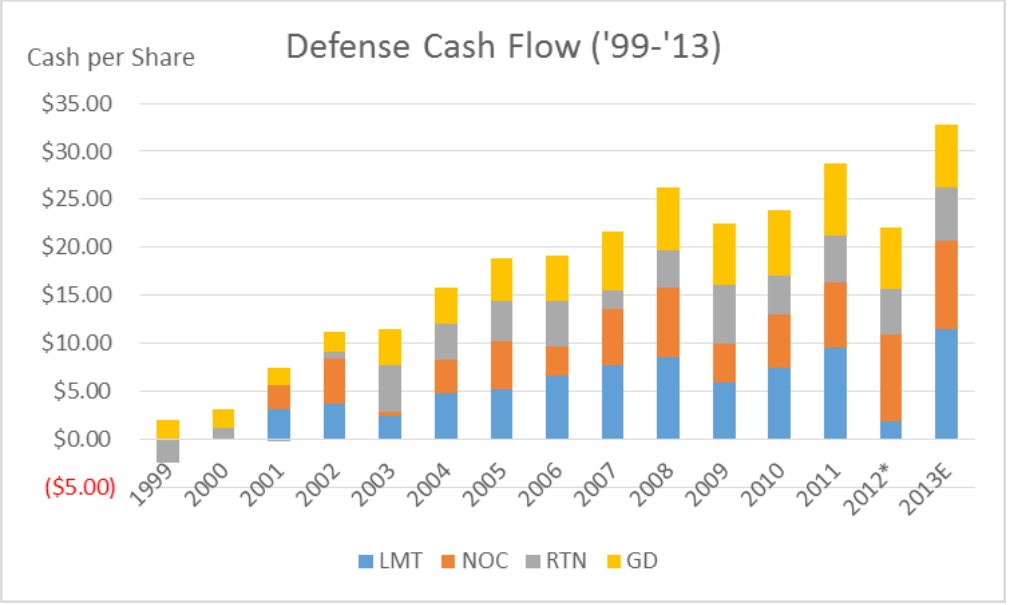


Top 10 Programs = Account for 60% of Major Program of Record Planned Funding

Source

Industry Has Never Been Healthier

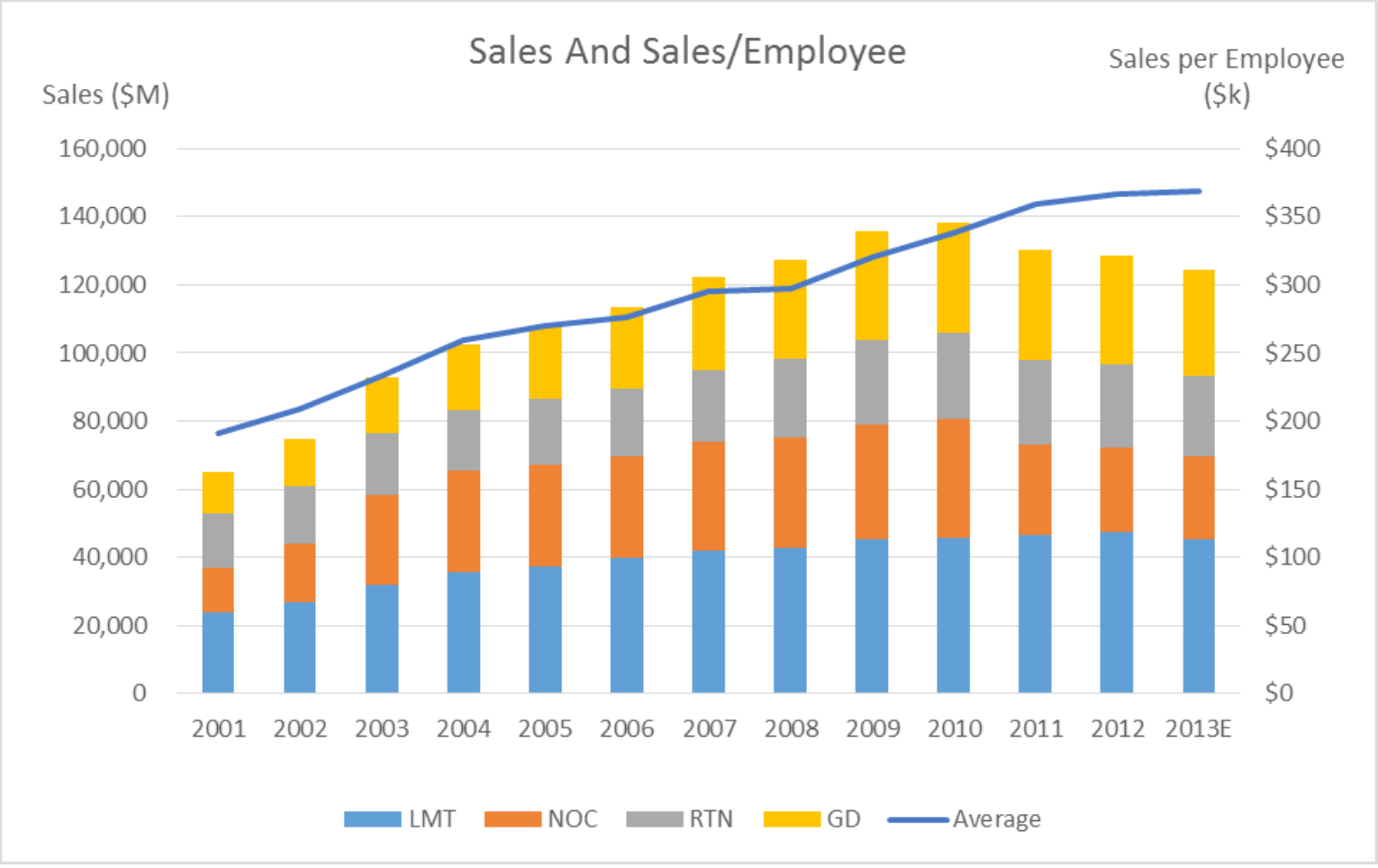




Balance Sheets Pristine and Cash Flow Compelling

Source: Company reports, Deutsche Bank estimates.

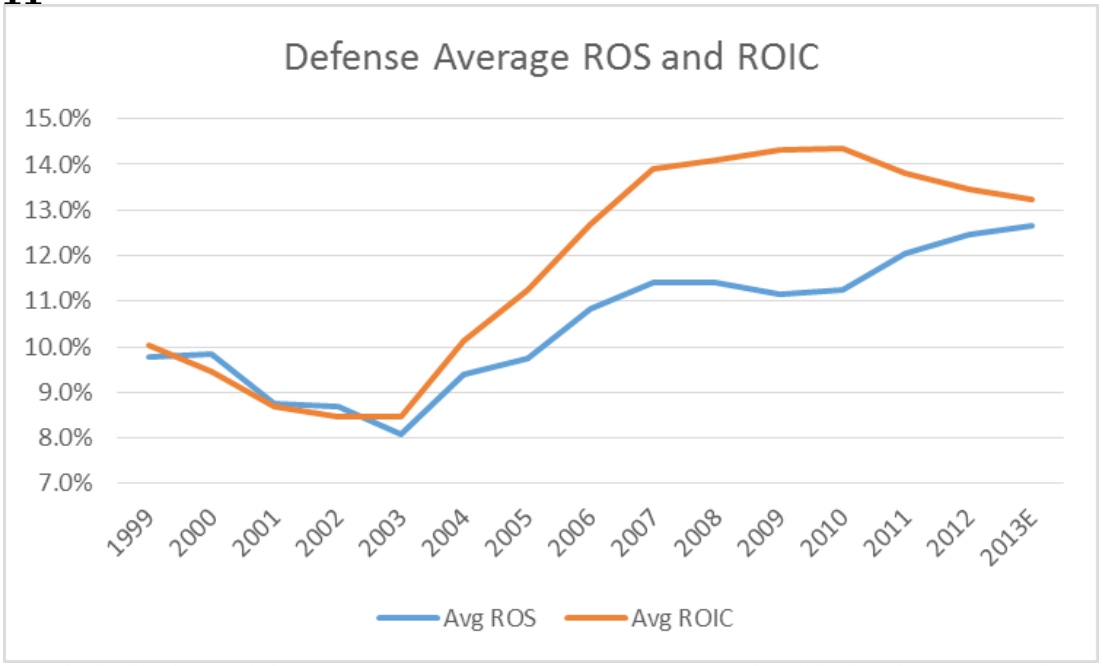
Efficiencies Have Been Pulled Out of Supply Base



Sales Peak, but Sales/Emp Continue to Improve (+100% since '01)

Source: Company reports, Deutsche Bank estimates.

And It's Continuing to Show Up in Margin Expansion



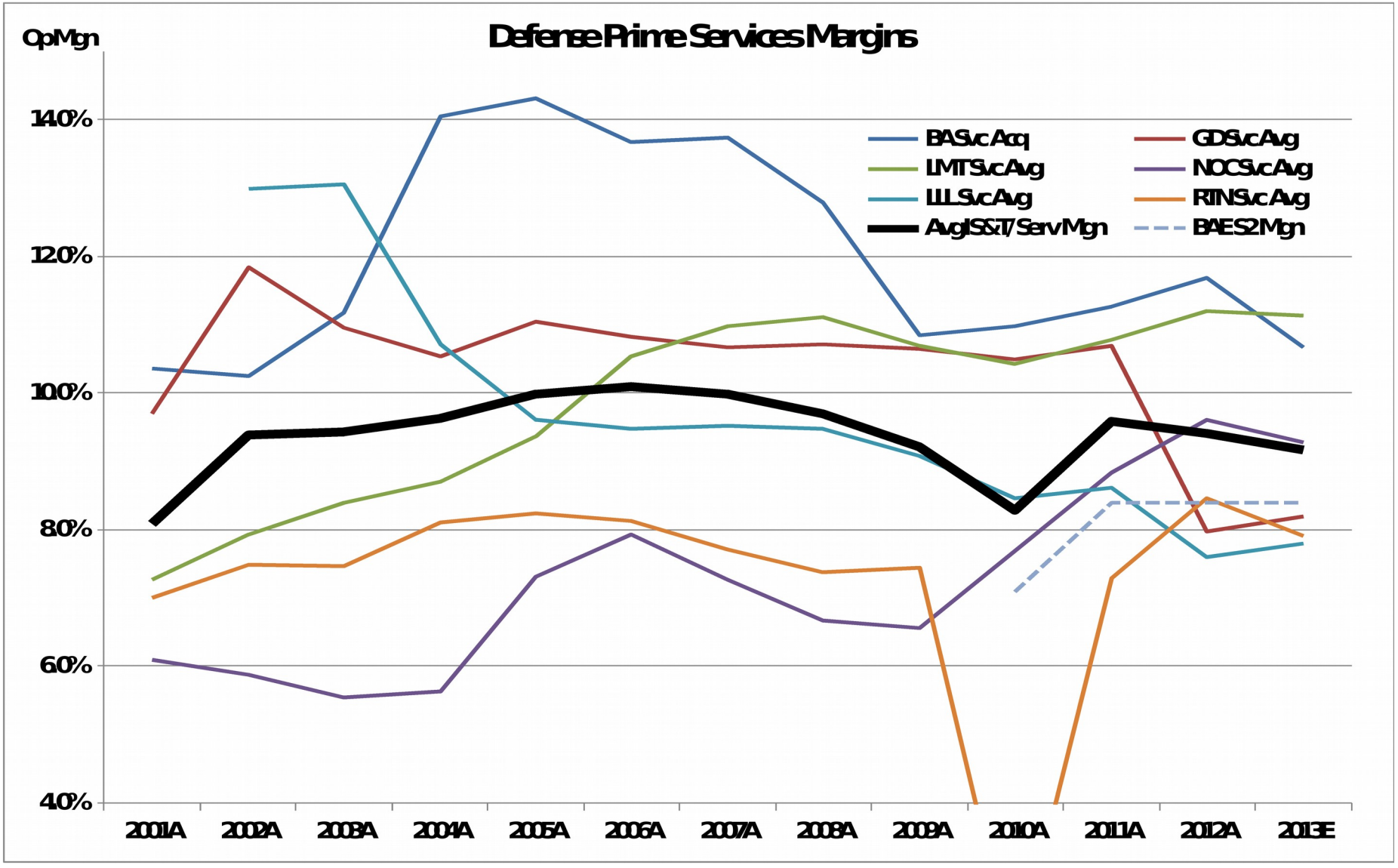
Return on Sales*	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	'99-'13 (ch)
LMT	6.9%	7.0%	7.1%	7.6%	7.8%	8.4%	9.2%	10.2%	11.2%	11.6%	11.4%	11.1%	11.4%	11.8%	12.3%	5.2%
NOC	8.7%	8.9%	7.7%	6.0%	7.3%	7.7%	8.0%	9.3%	9.8%	8.5%	8.7%	9.6%	11.6%	12.6%	12.4%	4.7%
RTN	10.0%	10.6%	7.8%	9.6%	8.5%	11.3%	11.4%	12.9%	13.2%	13.1%	13.1%	12.2%	13.6%	14.1%	14.1%	6.3%
GD	13.4%	12.9%	12.3%	11.4%	8.8%	10.1%	10.3%	10.9%	11.4%	12.5%	11.5%	12.2%	11.7%	11.4%	11.7%	-0.6%
Average	**9.8%**	**9.8%**	**8.8%**	**8.7%**	**8.1%**	**9.4%**	**9.7%**	**10.8%**	**11.4%**	**11.4%**	**11.2%**	**11.2%**	**12.1%**	**12.5%**	**12.6%**	**3.9%**
Average, ex GD	8.6%	8.8%	7.6%	7.8%	7.8%	9.1%	9.5%	10.8%	11.4%	11.1%	11.1%	10.9%	12.2%	12.8%	12.9%	5.4%

Return on Capital*	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013E	'99-'13 (ch)
LMT	7.4%	6.3%	7.4%	9.6%	11.6%	14.1%	17.2%	18.9%	20.7%	20.7%	20.7%	18.5%	19.6%	19.0%	18.6%	11.2%
NOC	6.9%	7.4%	6.1%	2.6%	5.1%	6.3%	6.7%	8.0%	8.9%	8.0%	9.6%	11.7%	10.0%	11.1%	10.3%	4.1%
RTN	4.4%	4.3%	3.1%	5.5%	5.2%	7.1%	7.4%	8.8%	10.0%	10.9%	11.9%	11.8%	11.6%	10.9%	10.4%	7.4%
GD	21.4%	19.8%	18.1%	16.1%	11.9%	13.0%	13.8%	15.0%	16.0%	16.8%	15.1%	15.4%	14.1%	12.8%	13.6%	-4.5%
Average	**10.0%**	**9.5%**	**8.7%**	**8.5%**	**8.5%**	**10.1%**	**11.3%**	**12.7%**	**13.9%**	**14.1%**	**14.3%**	**14.4%**	**13.8%**	**13.5%**	**13.2%**	**4.5%**
Average, ex GD	6.2%	6.0%	5.5%	5.9%	7.3%	9.2%	10.4%	11.9%	13.2%	13.2%	14.1%	14.0%	13.7%	13.7%	13.1%	7.6%

**Adjusted for Pension/One-times*

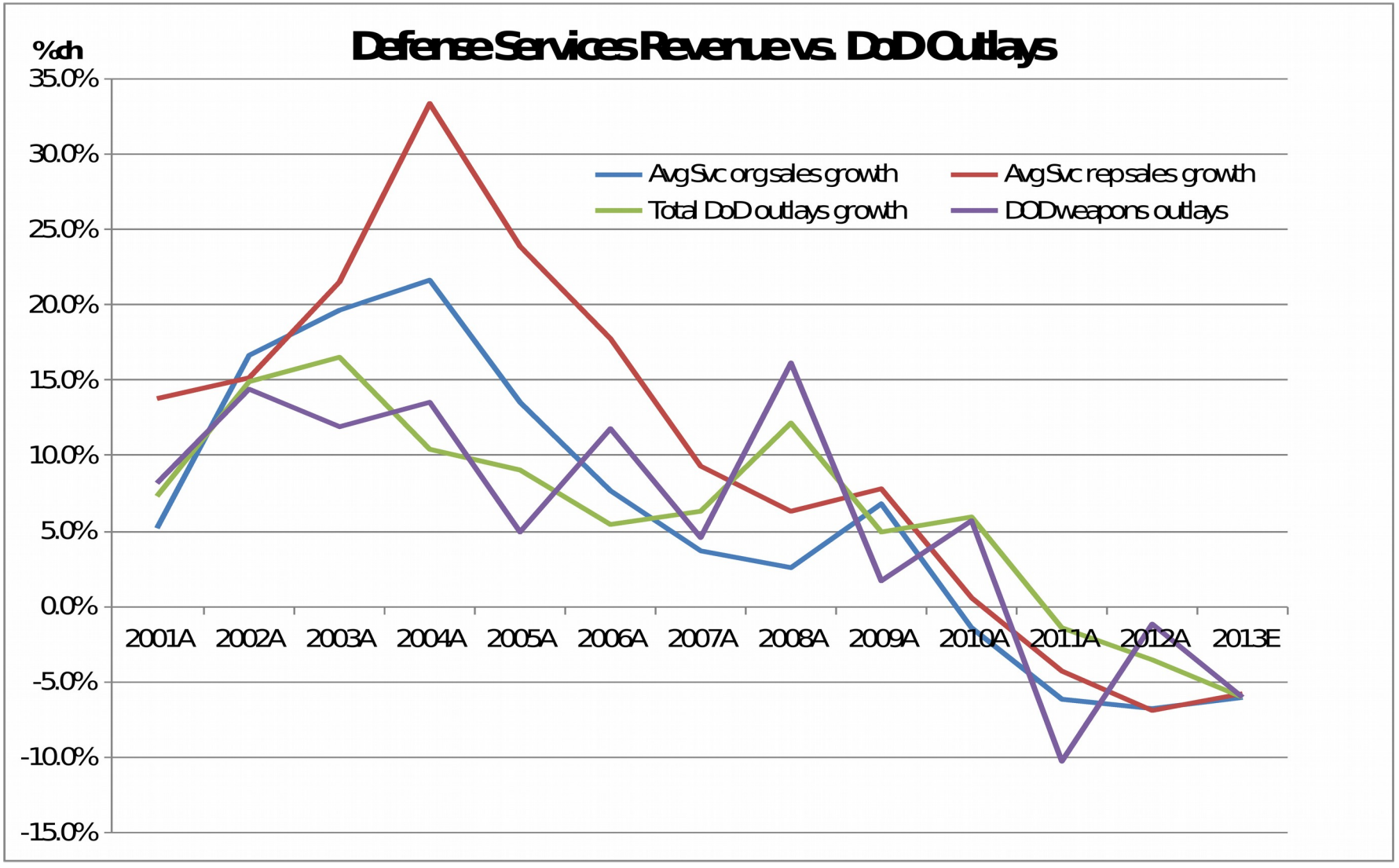
Source: Company reports, Deutsche Bank estimates.

…though Defense Services margins a bit more hurt…



Source: Company Reports, Deutsche Bank Estimates

…As Defense Services Growth Declines Set In



Source: Company Reports, Deutsche Bank Estimates

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April 2014

Cognitive Dissonance….

Contractor Quotes in ’14*

- We now see again a marketplace in the future, even in sequestration, that actually has growth two years out.

- …the base budget is bottoming in the '13 to '15 timeframe. We don't know the exact moment of that, but it will start growing even with sequester.

- …I would add that I think we have always said that, we looked at 2014 and part of 2015 being a transition year. And if you look at 2016 and look at the numbers, there is ac
under seq

DoD Quotes in ‘14

- … Sequestration requires cuts so deep, so abrupt, so quickly, that we cannot shrink the size of our military fast enough.

- In the short-term, the only way to implement sequestration is to sharply reduce spending on readiness and modernization…

- …. let's drop the illusion that efficiency nip and managerial tuck the U.S. military can absorb cuts of this size and of this immediacy without significant consequences.

Perception of Budget Backdrop in the Eyes of the Beholder

*Source: 1Q defense earnings and conference webcasts

What questions are being asked?

a. Steps that DOD or Congress could take to reduce the cost of major defense acquisition programs;

b. Steps that DOD or Congress could take to expedite the delivery of useful capabilities to the warfighter;

c. Steps that DOD could take to improve how it recruits, trains, and develops its acquisition workforce;

d. Steps that DOD or Congress could take to empower key acquisition personnel, such as program managers and cost estimators, to make sound choices throughout the acquisition process;

e. Steps that DOD and industry could take to develop and foster the technical expertise necessary to support successful acquisitions;

f. Steps that DOD could take to improve planning, contracting, oversight and management of services contracts;

g. Steps that Congress could take to improve oversight of DOD acquisitions – both products and services; and

h. Steps that DOD or Congress could take to incentivize timely delivery of capability and services for the warfighter and full consideration of life cycle costs.

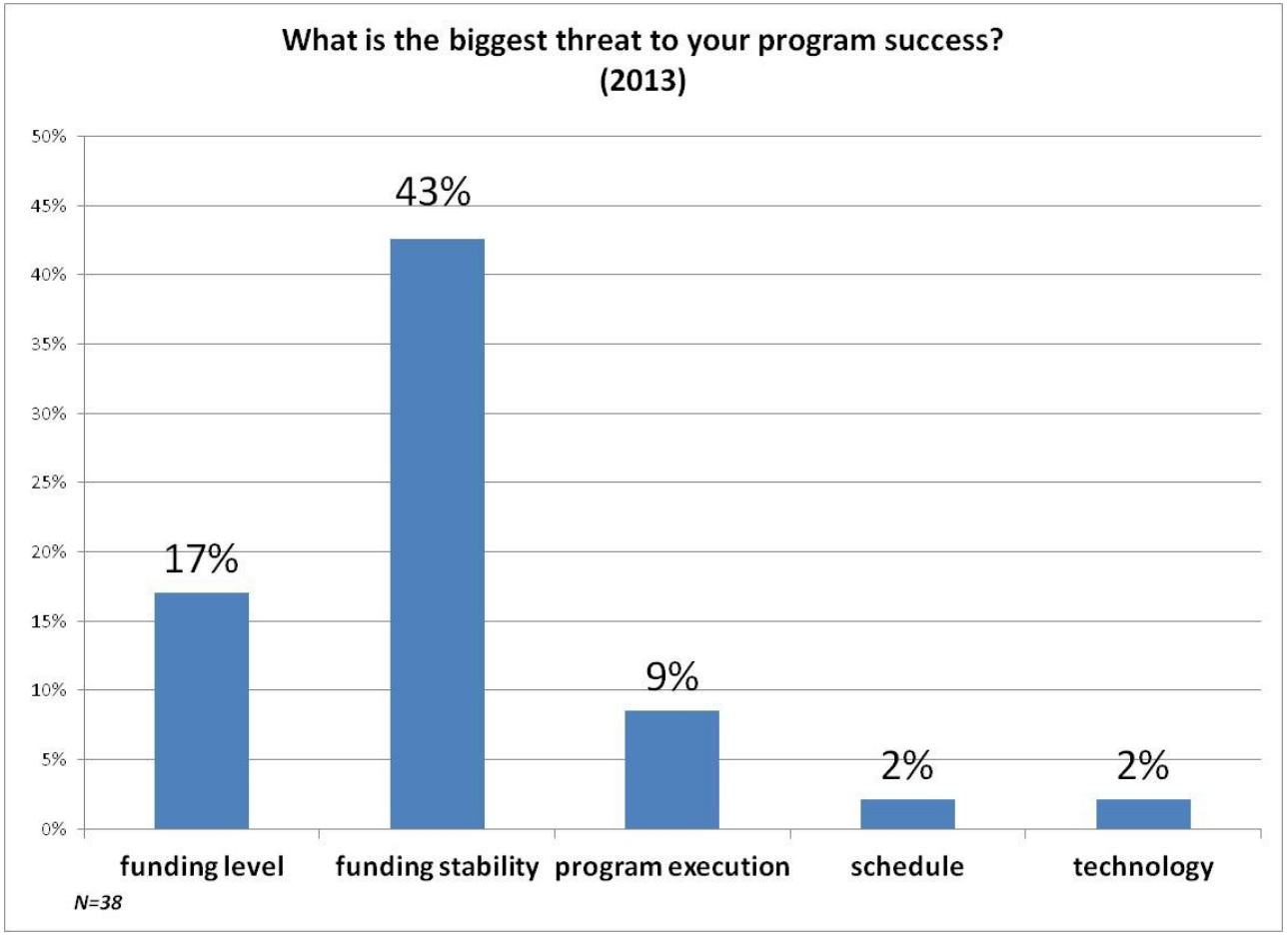
Source: Congressional Letter to Industry Groups, April 2014

What else could be asked?

What could Congress or the DoD do to encourage independent investment?

What could Congress or the DoD do to foster competition in otherwise sole-sourced end markets?

What could Congress do to restrict program funding instability?



Source: Deutsch Bank

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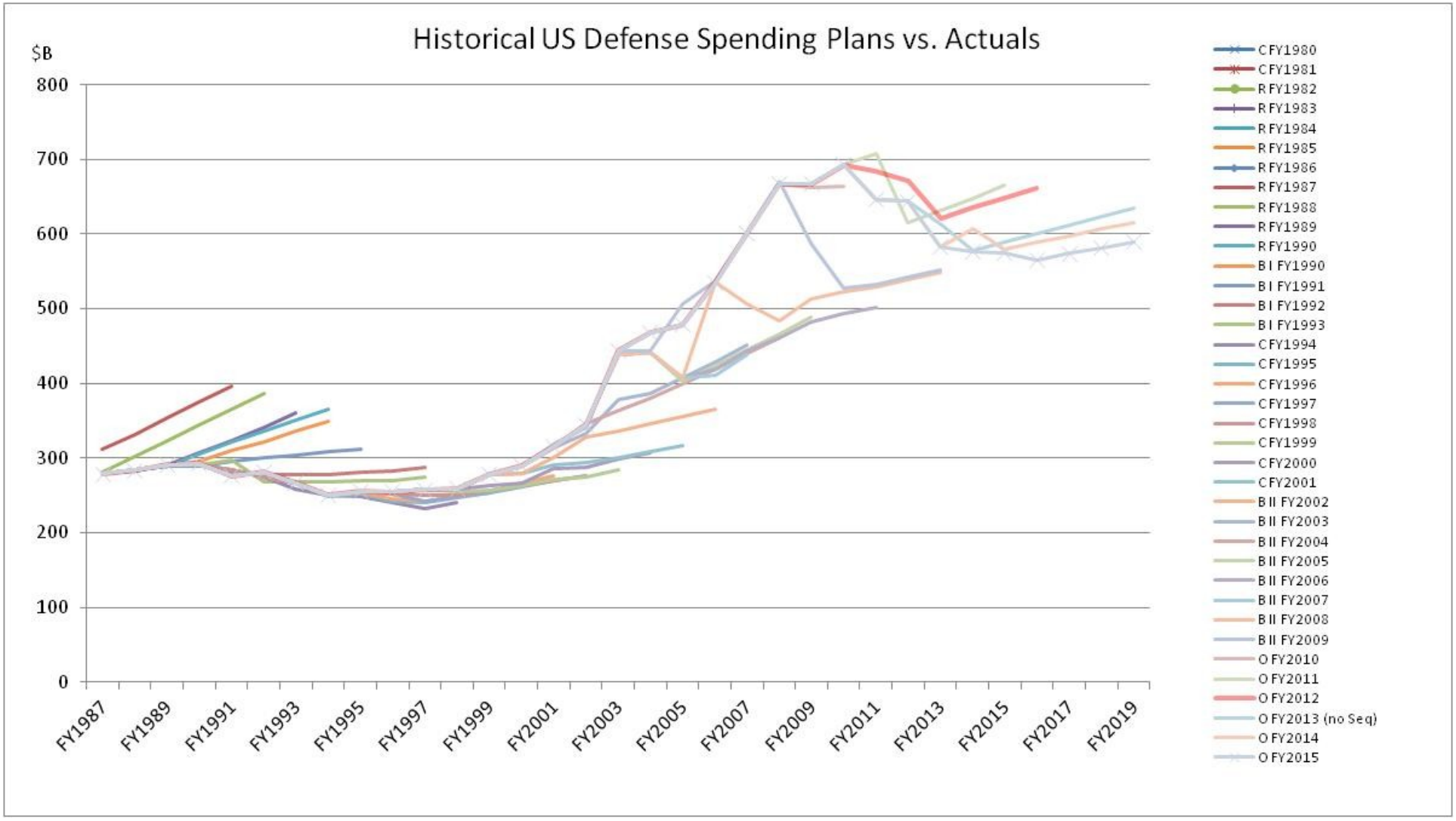
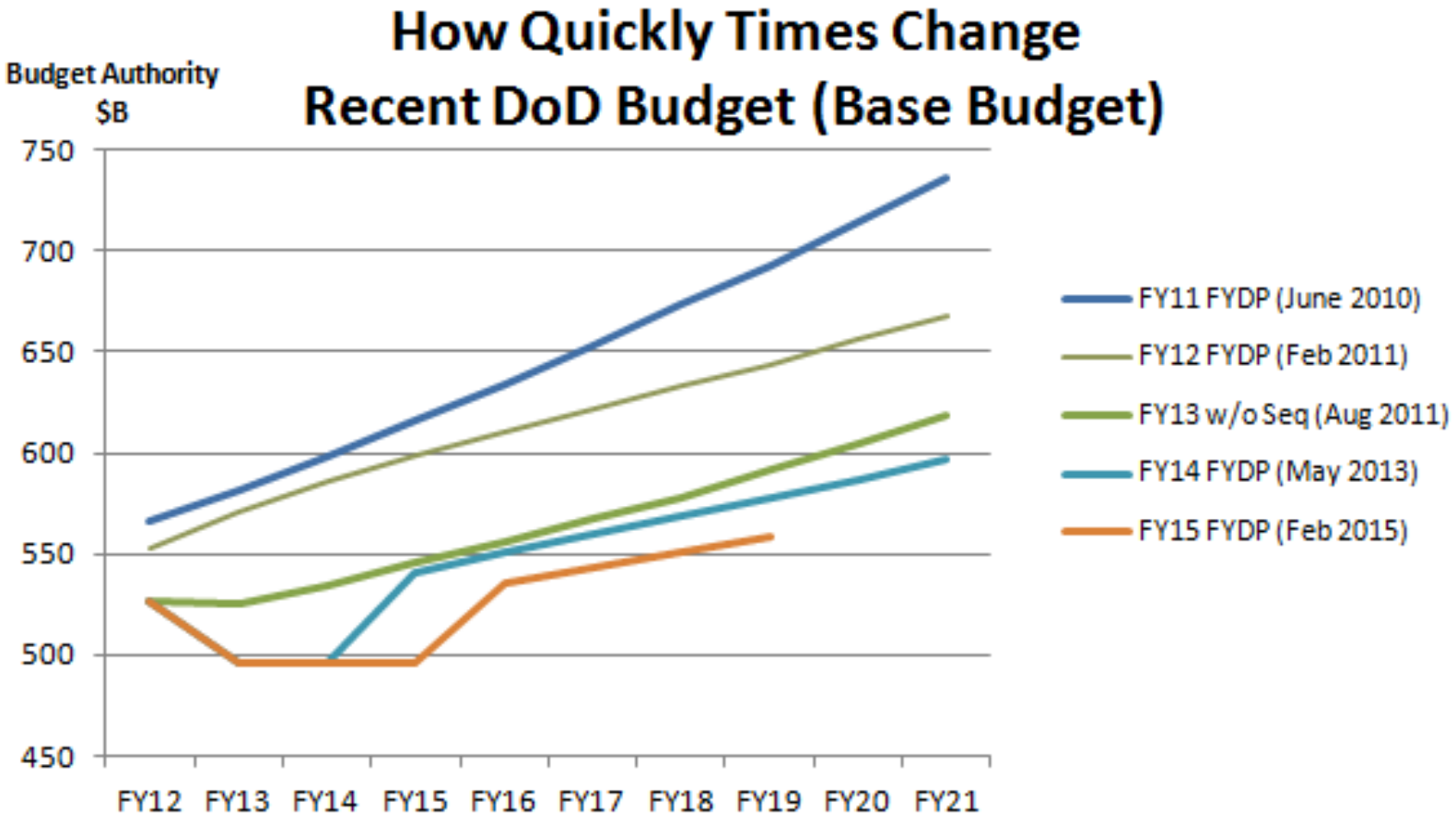
Budget Believability Becoming an Issue



FYDPs Starting to Overpromise and Underdeliver

Source: Department of Defense, Deutsche Bank estimates.

Budget Believability Becoming an Issue (2)



What Had Been a Decade of Budget Predictability Has Come to an End….

Source: Department of Defense, Deutsche Bank estimates.

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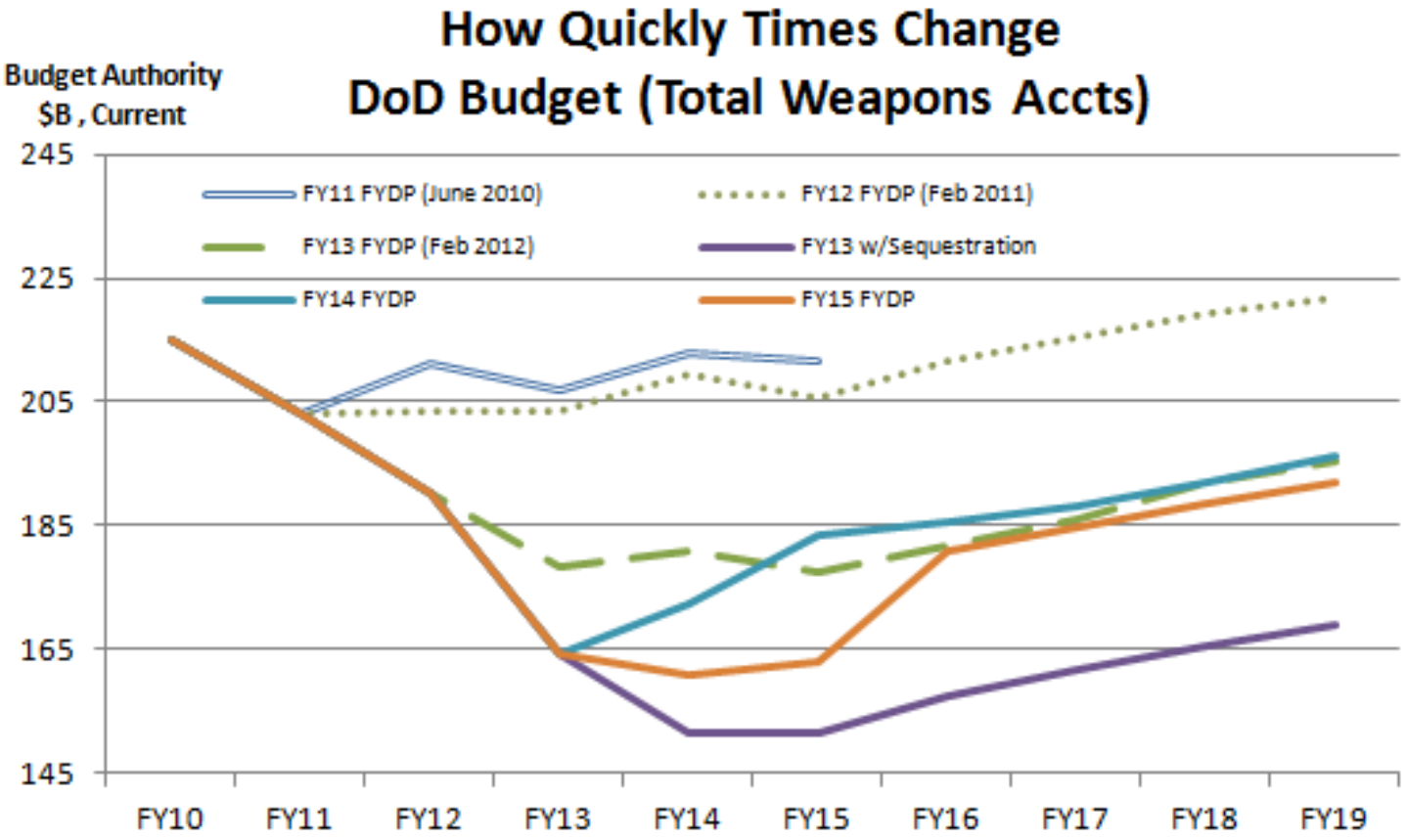
Budget Believability Becoming an Issue (3)



…And Investment Accounts Likely Bear Much of the Decline

Source: Department of Defense, Deutsche Bank estimates.

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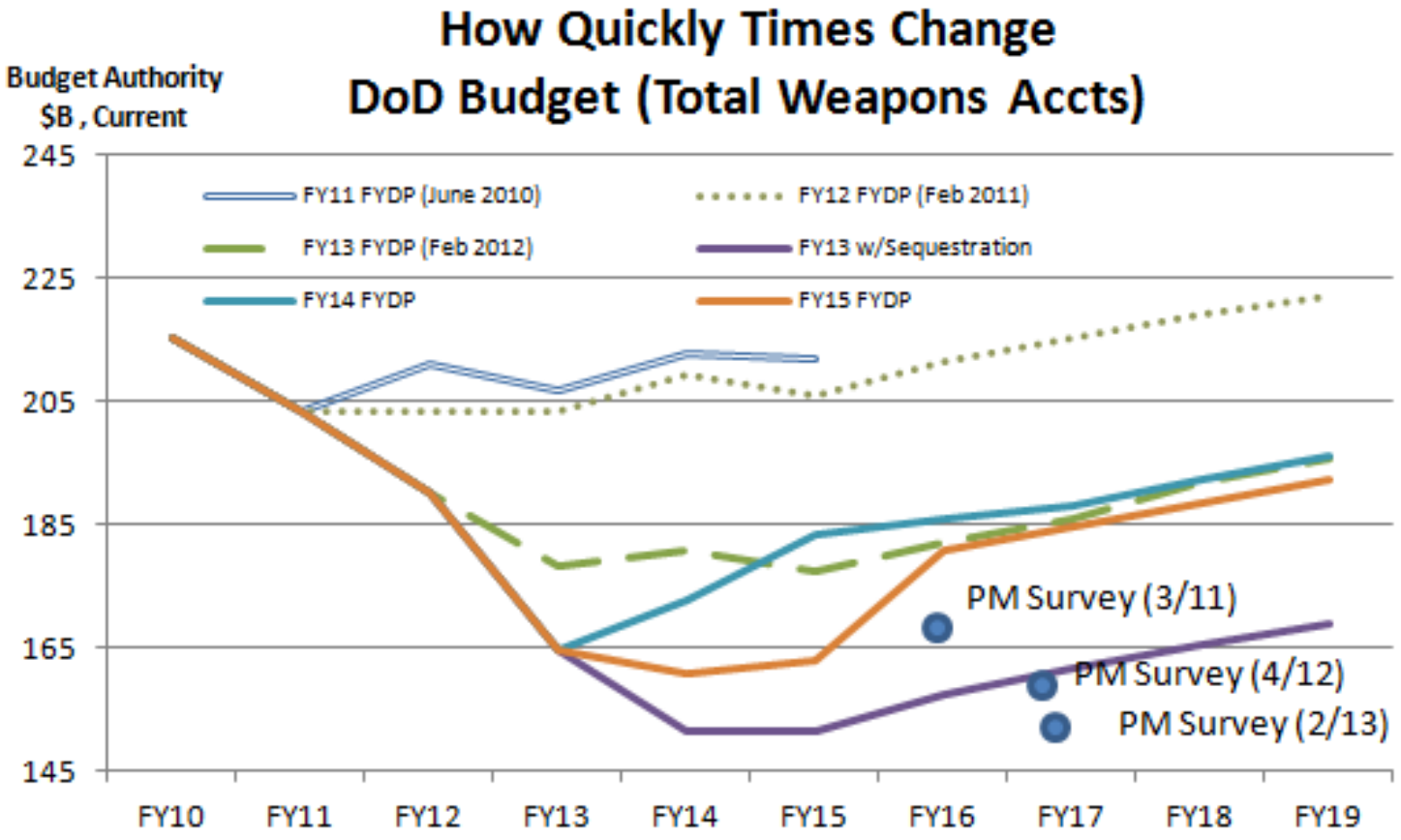
…And PMs think so too.



- *What will the modernization budget look like in 5yrs?*

Source: Department of Defense, Deutsche Bank estimates.

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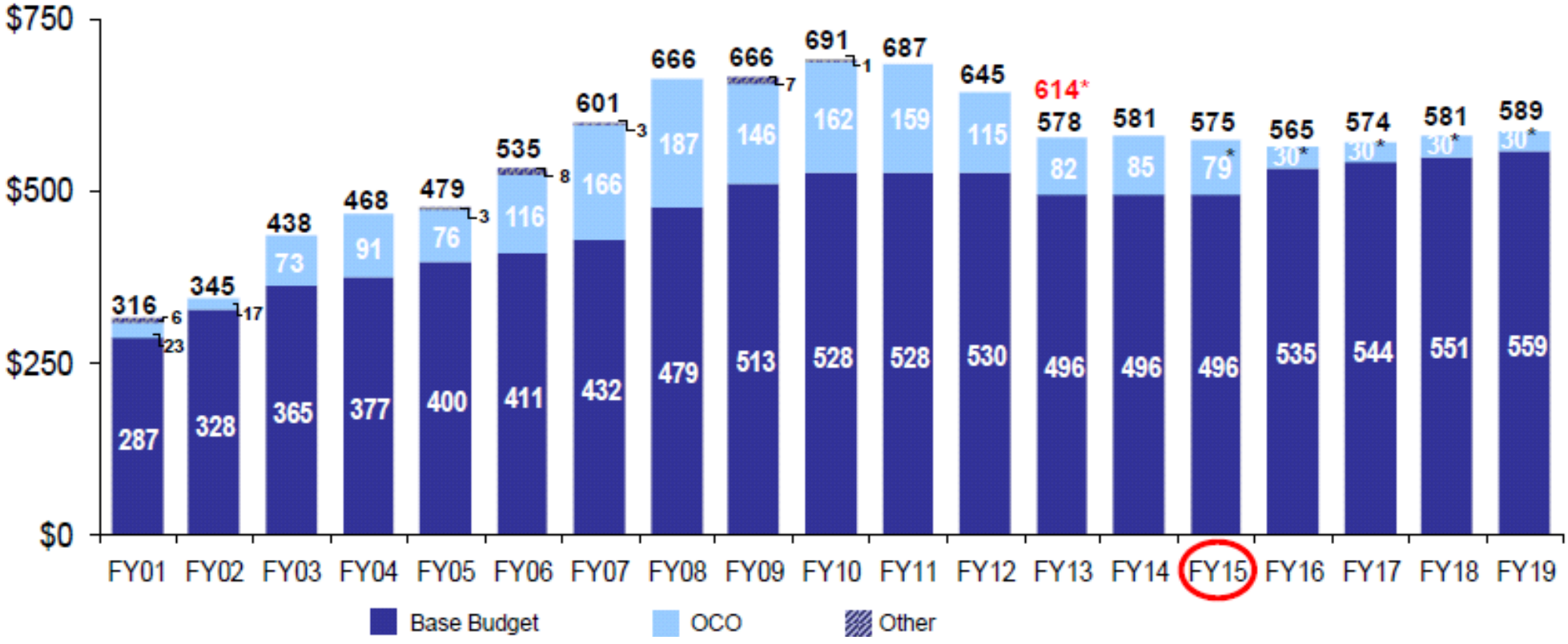
FY15 Proposal in Perspective



- *OCO Budget Likely Plugs the Gap Again*

Source: Department of Defense, Deutsche Bank estimates.

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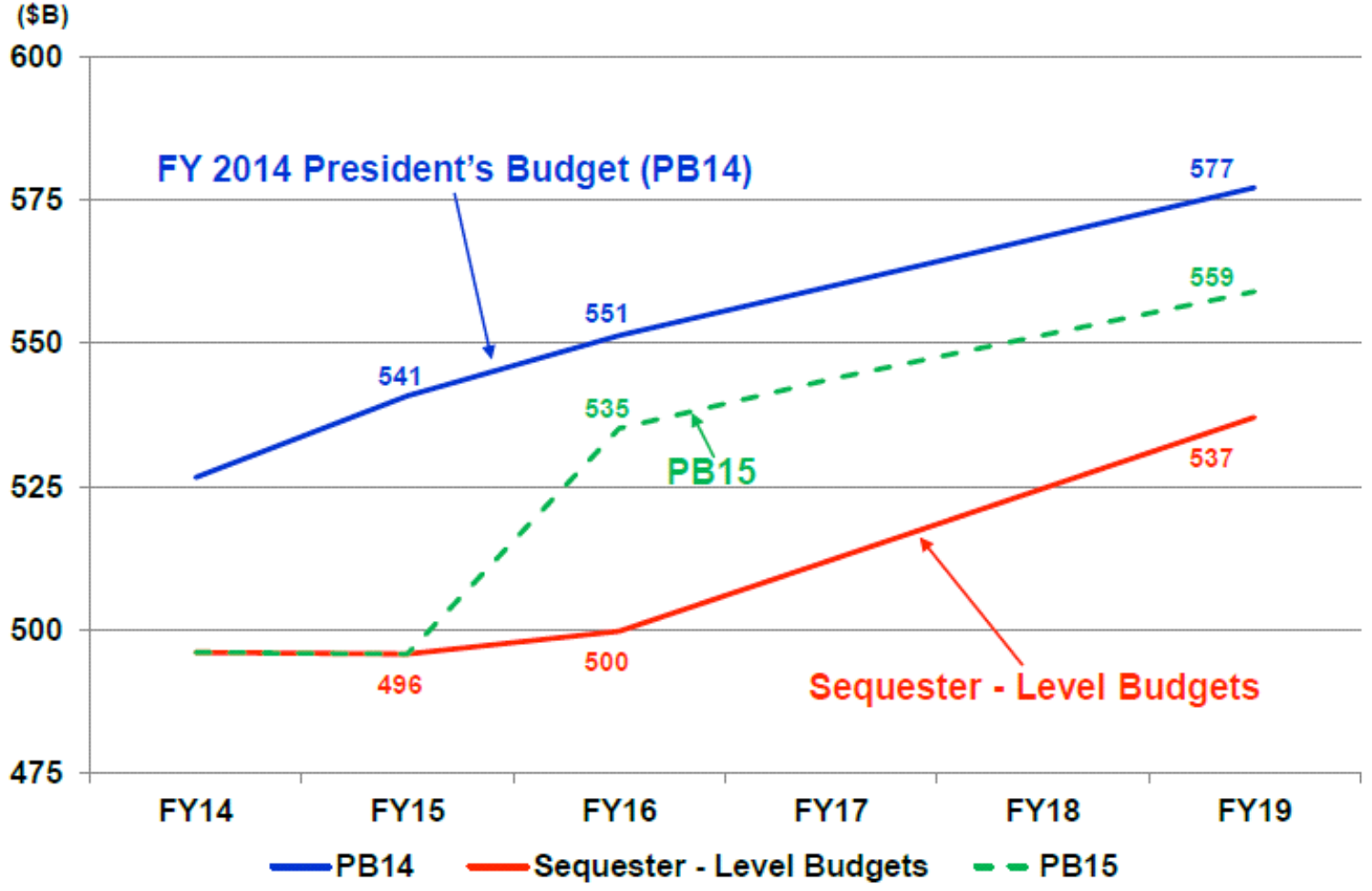
FY15 Proposal in Perspective



- *We'd take the Over on Sequester and Under on the PB15*
- *Not clear what the Extra $115B buys in the FYDP*

Source: Department of Defense, Deutsche Bank estimates.

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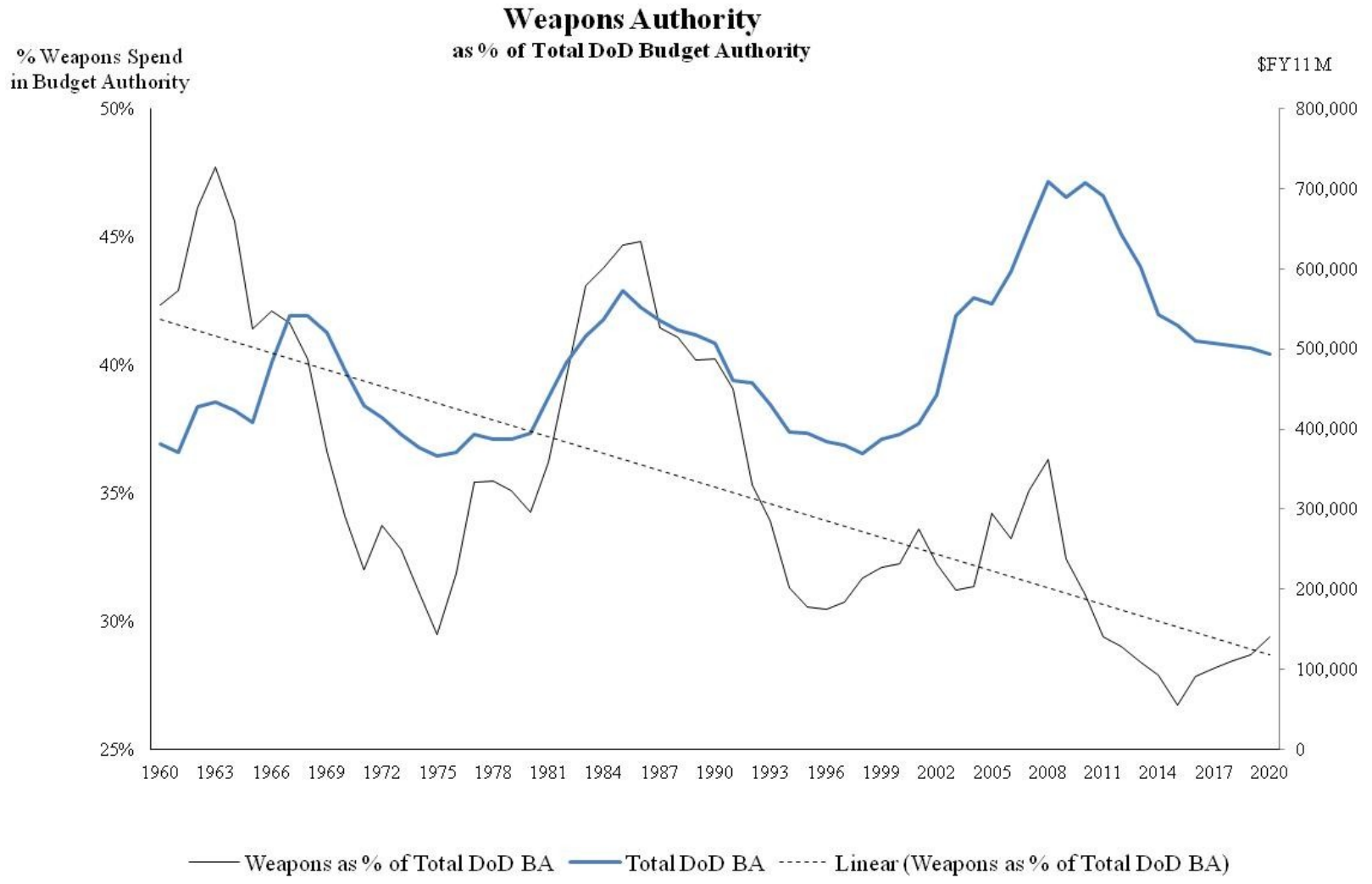
Crowding Out Effect Continues Despite Relief



Source: Department of Defense, Deutsche Bank estimates.

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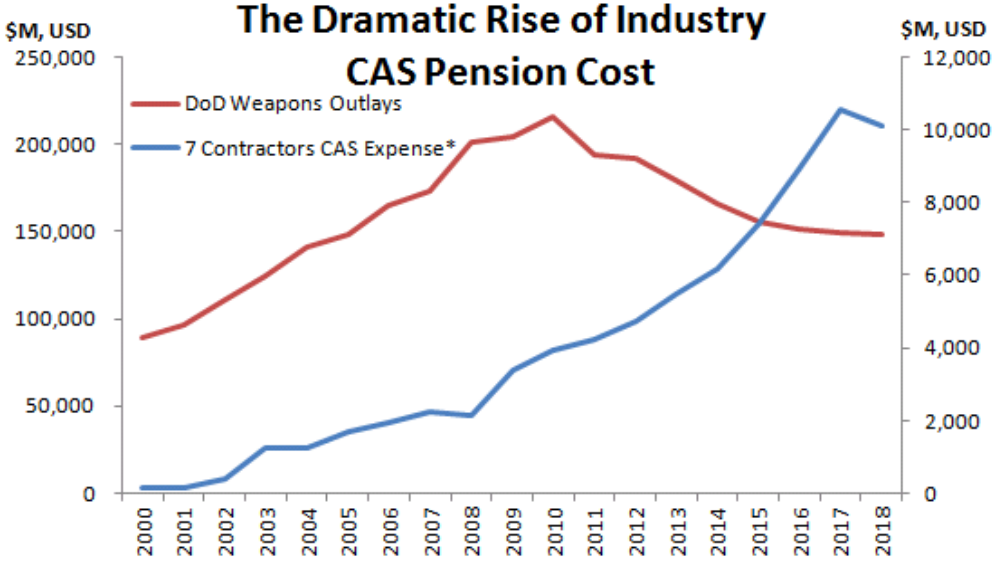
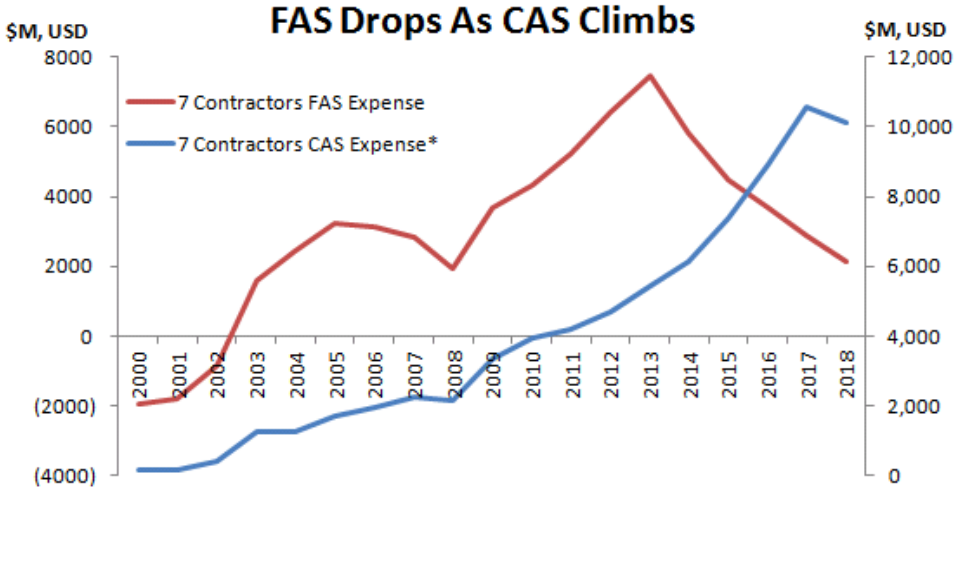
Why Pension Matters

—In some cases, 80-95% of earnings growth through 2018 will be dictated by pension dynamics

—Cash flow implications are real, though fluid, and are sometimes less than obvious

—The market is still unclear on how to think about modelling/valuing the earnings/cash impact of pension over the next several years





Source: Department of Defense, Company reports, Deutsche Bank estimates.

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How much will pension drive earnings?

		2014	2015	2016	2017	2018
LMT	CAS Expense	(1,618)	(1,948)	(2,323)	(2,588)	(2,418)
47460	FAS Expense	(1,273)	(1,068)	(877)	(563)	(318)
18%	Cash contributions	(1,000)	(1,834)	(2,188)	(1,805)	(1,553)
	NI to OCF adjustment^	177	(498)	(852)	(807)	(802)
9.13	Aftr-tax Net Impact to cash	402	74	88	509	563
326.3	Pension driven EPS growth	1.65	1.07	1.13	1.15	0.15
						56%
NOC	CAS Expense	(554)	(720)	(874)	(1,021)	(914)
24110	FAS Expense	(114)	(55)	1	59	116
17%	Cash contributions	(74)	(39)	(54)	(112)	(56)
	NI to OCF adjustment^	26	11	(36)	(111)	(112)
8.35	Net Impact to cash	312	443	533	591	557
225.2	Pension driven EPS growth	0.79	0.65	0.61	0.59	(0.14)
						30%
RTN	CAS Expense	(1,221)	(1,502)	(1,801)	(2,249)	(2,128)
29066	FAS Expense	(875)	(726)	(489)	(349)	(228)
34%	Cash contributions	(837)	(922)	(953)	(583)	(493)
	NI to OCF adjustment^	25	(127)	(301)	(152)	(172)
5.96	Net Impact to cash	249	377	551	1,083	1,063
319.6	Pension driven EPS growth	1.21	0.87	1.09	1.20	0.00
						73%
HII	CAS Expense	(178)	(211)	(258)	(309)	(301)
4478	FAS Expense	(104)	(100)	(90)	(84)	(79)
23%	Cash contributions	(100)	(89)	(90)	(91)	(92)
	NI to OCF adjustment^	3	8	(0)	(4)	(8)
4.3	Net Impact to cash	51	80	109	142	136
50.8	Pension driven EPS growth	1.79	0.47	0.73	0.73	(0.04)
						86%

Pension alone will drive EPS Growth of 30-86% over the next five years

About half of the growth Is attributable to accounting And half attributable to Higher CAS reimbursement

Source: Company reports, Deutsche Bank estimates.

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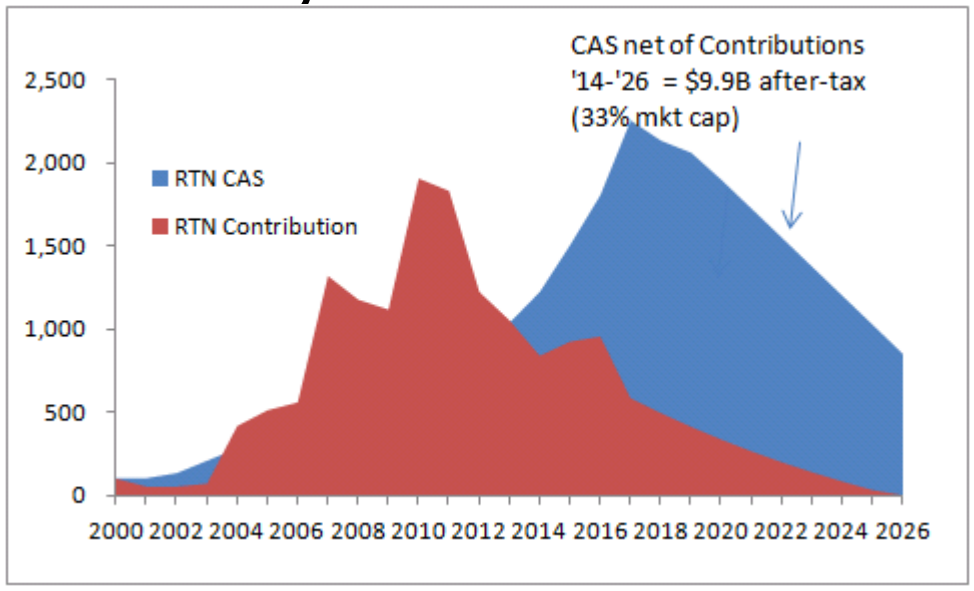
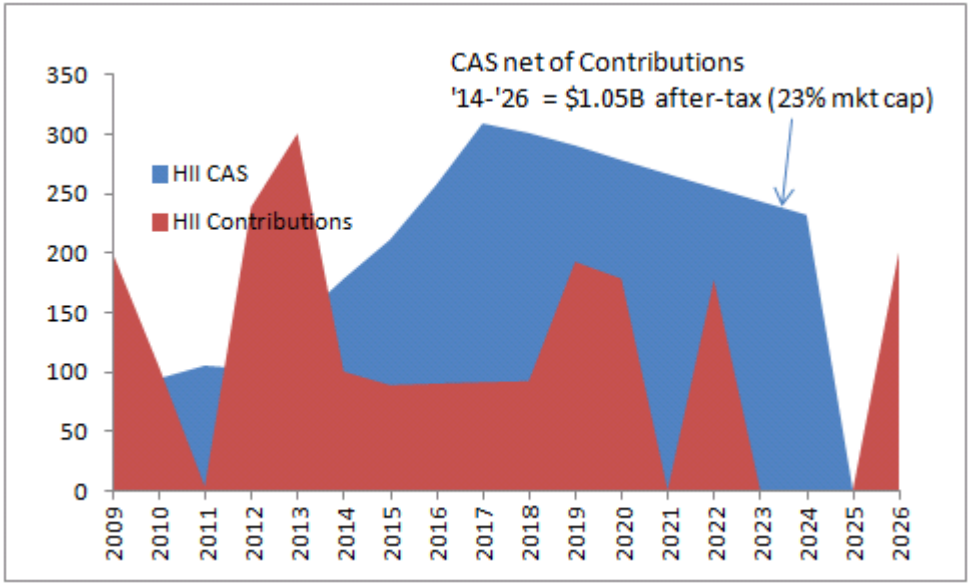
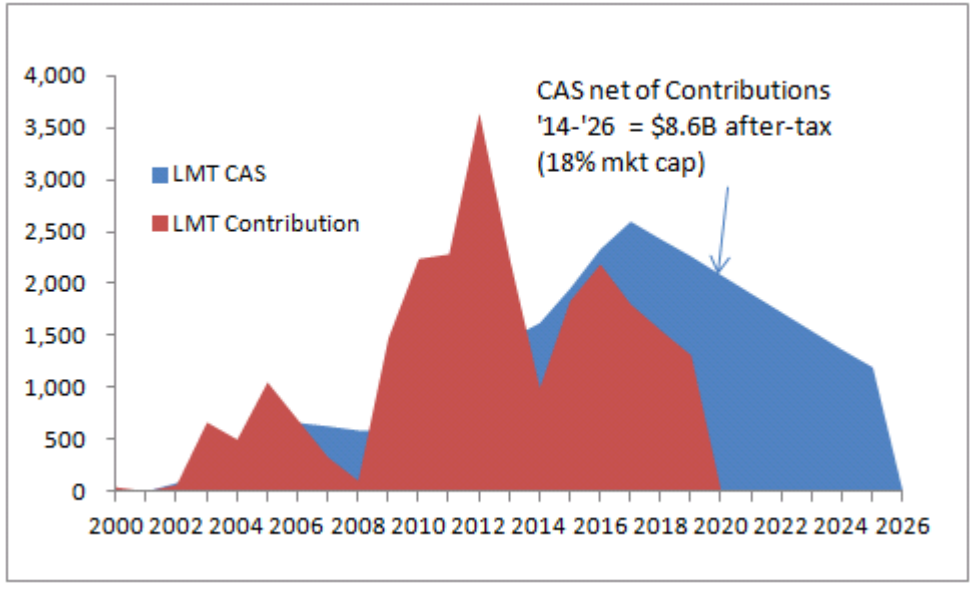
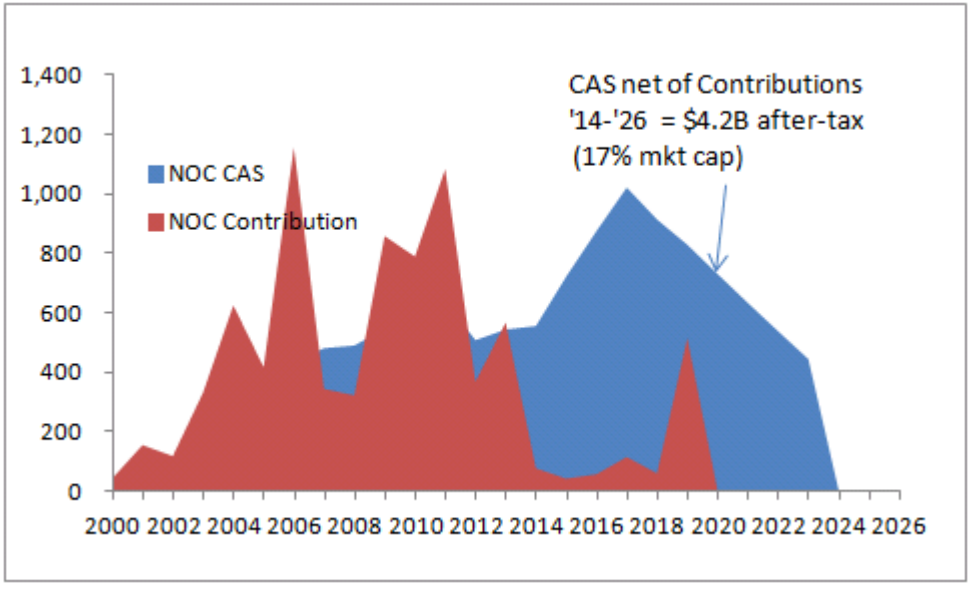
What is the net cash benefit of pension recovery?









Source:Company reports, Deutsche Bank estimates.

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Appendix 1
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Myles Walton

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Buy: Based on a current 12-month view of total shareholder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield), we recommend that investors buy the stock.

Sell: Based on a current 12-month view of total shareholder return, we recommend that investors sell the stock.

Hold: We take a neutral view on the stock 12 months out and, based on this time horizon, do not recommend either a Buy or Sell.

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1. Newly issued research recommendations and target prices always supersede previously published research.

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Buy: Expected total return (including dividends) of 10% or more over a 12-month period

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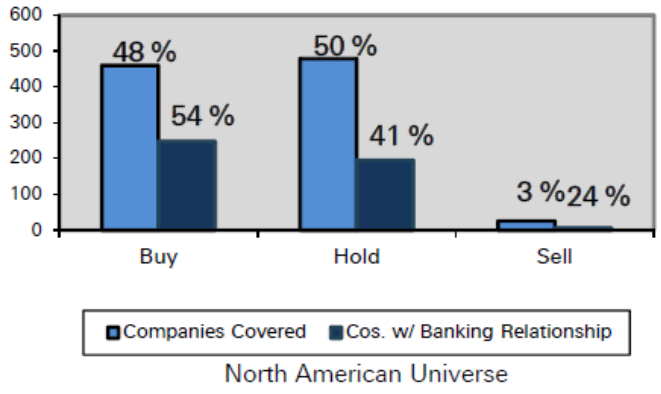

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